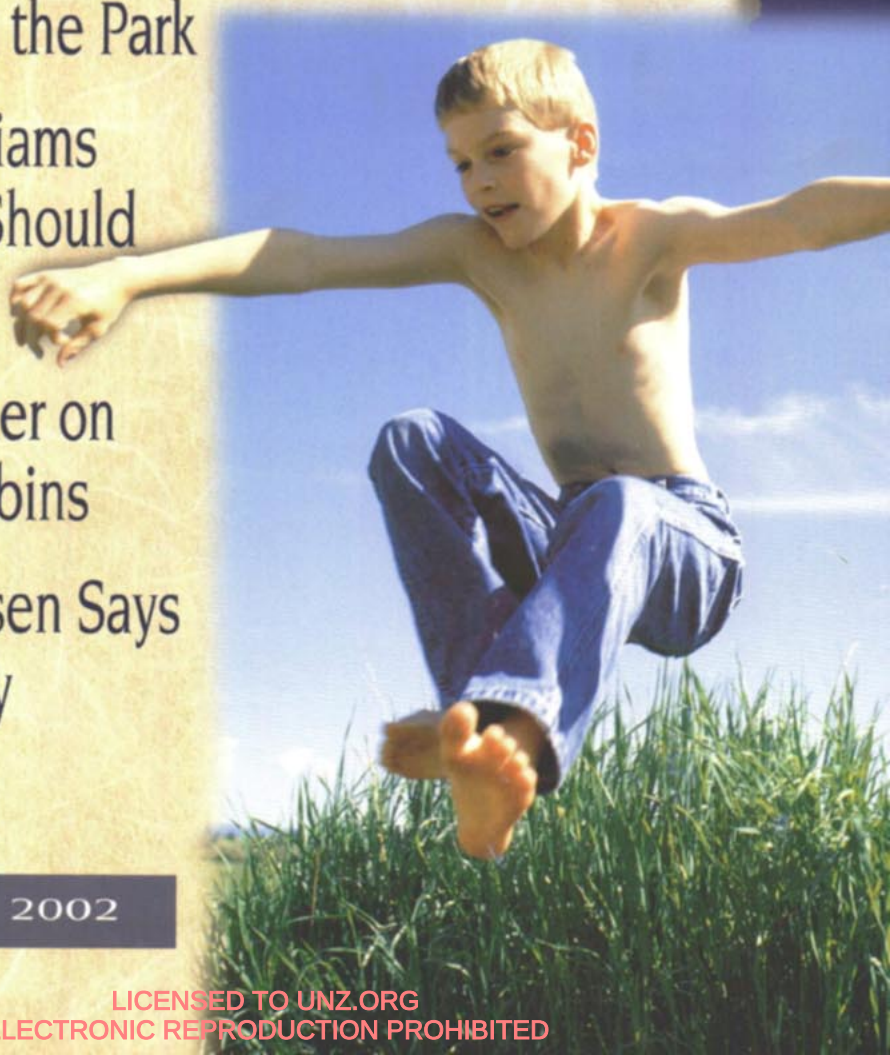
IDEAS ON LIBERTY

FEE's Monthly Magazine

Exciting News About Our FEE National Convention and Laissez Faire Books

- Barefoot in the Park
- Walter Williams Asks Who Should Vote?
- Israel Kirzner on Lionel Robbins
- Mark Skousen Says Take It Easy



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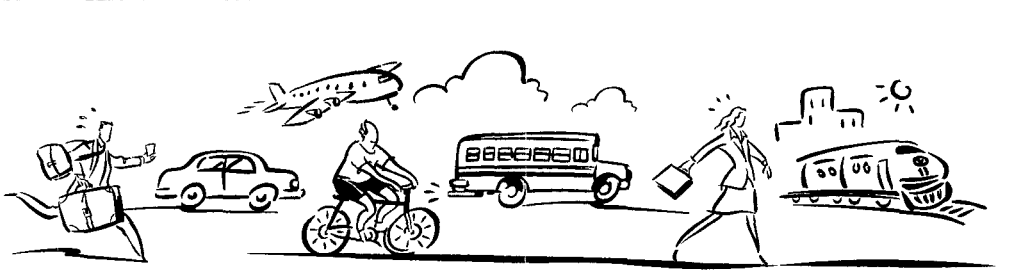

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IDEAS ON LIBERTY

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PERSPECTIVE

Anything to Declare?

"The Congress shall have Power To . . . declare War. . . ."
—U.S. Constitution, Article I, Section 8

That brief phrase seems to have vanished from the national memory in the wake of the atrocities of September 11. If the terrorists really intended to assault the American tradition of freedom under law, score one for the terrorists.

Instead of a declaration of war, Congress passed this resolution: "The president is authorized to use all necessary and appropriate force against those nations, organizations, or persons *he determines* planned, authorized, committed, or aided the terrorist attacks that occurred on Sept. 11, 2001, or harbored such organizations or persons, in order to prevent any future acts of international terrorism against the United States by such nations, organizations or persons." (Emphasis added.)

That is not a declaration of war. It's a grant of Caesarian power.

Indeed, when the Senate majority leader was asked if the President would need congressional authorization to attack Iraq after Afghanistan, he replied, "No, he certainly wouldn't have to clear it with us. He's an independent branch of government."

Alexander Hamilton wrote in Federalist No. 69 that "The President is to be commander-in-chief of the army and navy of the United States. In this respect his authority would be nominally the same with that of the king of Great Britain, but in substance much *inferior* to it. It would amount to nothing more than the supreme command and direction of the military and naval forces, as first General and admiral of the Confederacy; while that of the British king extends to the DECLARING of war and to the RAISING and REGULATING of fleets and armies, all which, by the Constitution under consideration, would appertain to the legislature." (Italics added.)

The framers had good reason to separate the dangerous power to declare (and finance) war from the power to command the armed

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forces. As James Madison explained in Federalist No. 47: "The accumulation of all powers, legislative, executive, and judiciary in the same hands, whether of one, a few, or many, and whether hereditary, self-appointed, or elective, may justly be pronounced the very definition of tyranny." He quoted Montesquieu: "There can be no liberty where the legislative and executive powers are united in the same person, or body of magistrates."

Although the constitutional delegation of the war power has not been respected since 1941, devotees of freedom under law should be alarmed nonetheless. Unfortunately, Madison was right when he wrote in Federalist No. 48, "[A] mere demarcation on parchment of the constitutional limits of the several departments is not a sufficient guard against those encroachments which lead to a tyrannical concentration of all the powers of government in the same hands."

* * *

If your intention is to be safe at all costs you're apt to miss out on some important things in life. So writes Ted Roberts.

Government controls on immigration are restrictions on the movement of people. Thus, Ken Schoolland writes, they share something with earlier restrictions on how and where people could live their lives.

If you like what federal standards have done for your toilets, just wait until you see what the government has in mind for your washing machines. Thanks to Michael Heberling, you don't have to wait to find out.

Imagine a herd of dinosaurs trying politically to set up a retirement system. Tom Siems has an idea what it would be like.

The conventional wisdom has it that the government's schools would be better if only more money were spent to hire more teachers and reduce class sizes. E. Frank Stephenson analyzes the proposal and finds it wanting.

A funny thing seemed to happen to economist Paul Krugman on his way to debunking the Mises-Hayek theory of the business cycle, write Roger Garrison and Gene Callahan. He implicitly embraced it.

Scratch an opponent of free trade and you may find an opponent of society itself. Barry Loberfeld has come across some examples.

When critics of capitalism begin with the premise that investors aren't rational, their statist conclusions are likely to be gross non sequiturs. Tibor Machan shows why.

Like the old joke, much of modern economics is built on wildly unrealistic assumptions. Virtually the only exception is Austrian economics, writes D.W. MacKenzie.

Who was it who said that local government is less a threat to liberty than the national government? Scott McPherson knows otherwise.

Unfortunately, the U.S. Constitution permits the government to take private property from its owner. But it may do so only for "public use" and with "just compensation." As Timothy Sandefur explains, here's another constitutional provision that's increasingly breached.

Our columnists have been hard at work looking for interesting topics. President Mark Skousen sings the praises of leisure. Lawrence Reed finds a certain think tank unthinkable. Doug Bandow wonders what's secure about Social Security. Thomas Szasz ponders the distinction between prisoner and mental patient. Dwight Lee celebrates diversity. Donald Boudreaux asks some tough questions in the wake of September 11. Walter Williams takes up the sensitive matter of voter qualifications. And Aeon Skoble, confronted with the claim that markets undermine communities, says, "It Just Ain't So!"

Our reviewers assay books on property rights in the developing world, the politicization of public health, Julian Simon's view of the world, the Constitution under the New Deal, egalitarianism, and the history of economic thought.

—SHELDON RICHMAN

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From The President's Desk

by Mark Skousen

Leisure, The Basis of Culture

"How inscrutable is the civilization where men toil and work and worry their hair gray to get a living and forget to play!"
—Lin Yutang[1]

Ever since moving to the Bahamas in 1984, I have been intrigued by the idea of leisure—shedding the workaholic rat race to be "free and easy" and "letting oneself go," to quote the German philosopher Josef Pieper. To Pieper, leisure is more than merely getting off work at the end of the day or taking a vacation; rather "the soul of leisure lies in celebration" of nature, life, and the divine in perfect calm and relaxation.[2]

During my two-year sojourn in the "island of June,"[3] I picked up a copy of Bertrand Russell's celebrated book *In Praise of Idleness*. Russell, author of more than 60 books, was never idle—what he really meant was leisure time to pursue one's own loves and goals rather than working for someone else's objectives. In typical contemptuous style, Russell lambasted the Western penchant for hard labor: "The morality of work is the morality of slaves, and the modern world has no need of slavery." Furthermore, "The wise use of leisure . . . is a product of civilization and education. A man who has worked long hours all his life will be bored if he becomes suddenly idle. But without a considerable amount of leisure a man is cut off from many of the best things. . . . We attach too little importance to enjoyment and simple happiness." Russell believed that ideally man should work only four hours and spend the rest of the time engaged in playful activities, not passive activities like watching sports or television, but intellectual and scientific pursuits.[4]

Work Ethics: The East Versus the West

The Judeo-Christian West has always emphasized a strong work ethic, but what about the East? Lin Yutang, the celebrated Chinese libertarian philosopher, insisted that the American virtues of efficiency, punctuality, and goal-setting are actually "vices." "From the Chinese point of view," declared Lin, "the man who is wisely idle is the most cultured man. . . . Those who are wise won't be busy, and those who are too busy can't be wise." Referring to Western business practices, Lin ruminated, "Americans have now come to such a sad state that they are booked up not only for the following day, or the following week, but even for the following month. An appointment three weeks ahead of time is a thing unknown in China."[5]

Lin wrote his essay on loafing in 1937. Today Lin would be aghast at the degree in

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which the East has adopted the West's working patterns, and even surpassed them. Anyone who has been to Hong Kong, Japan, or Korea would laugh at any suggestion that Americans are overworked.

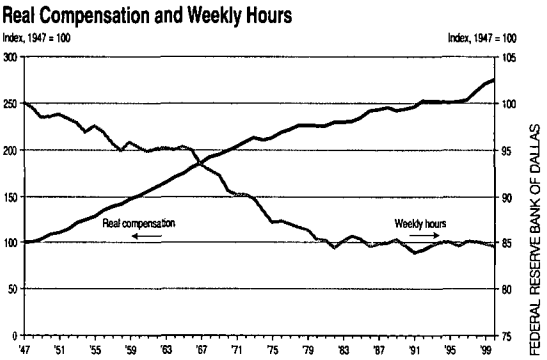
Is Overwork an Inherent Defect in Capitalism?

Yet that is precisely what Harvard economist Juliet Schor claims in her bestseller, *The Overworked American,* first written in the early 1990s. Critics of the market complain that the capitalist system inherently promotes overwork and discourages leisure. According to Schor, the constant demands of the consumer society and global competition are mandating more work hours and exploding consumer debt. Leisure time is on the decline, she says. Eight million Americans are holding two or more jobs, the highest figure since data were first collected 25 years ago. Schor writes that U.S. manufacturing employees work 320 more hours per year than their German or French counterparts. She proposes, among other things, a government-mandated three-week paid vacation for all U.S. employees.[6]

I question Schor's statistics. If Americans are working more and more, how does she explain the explosion in money spent on sports and recreational activities in the United States?

How Capitalism Liberates Man

The critics of capitalism misunderstand the role of the market. Only through capitalism can savings and surplus wealth—the foundation of leisure time—be achieved. Capitalism provides very powerful incentives to produce an abundance of material goods in less and less time (and thus at lower costs), hence freeing up time to pursue other interests. Greater leisure time is an inherent feature of an advancing capitalist system. What people do with their leisure time is another issue—some may choose to work another job, others may play. "In our opportunity economy," write W. Michael Cox and Richard Alm, "some professionals, managers and entrepreneurs are putting in killer hours. But that's the choice they make, in return for higher pay and faster career advancement than they might otherwise have. For the rank and file, the work week has continued to shrink in recent decades. Average weekly hours of production workers declined from 39.8 in 1950 to 34.5 in 2000."[7] The following graph demonstrates the gradual decline in average work hours.



Of course, America hasn't reach Bertrand Russell's goal of 20 work hours a week. In fact, average weekly hours have stagnated around 35 work hours over the past 20 years. Why? One reason ignored by Schor: Higher tax rates may be encouraging employees to work harder. A sharp cut in payroll taxes might reignite the downward trend in work hours. Schor should put that recommendation in her second edition. □

1. Lin Yutang, *The Importance of Living* (New York: John Day, 1937), p. 148. Yutang's classic work on leisure has been reprinted in paperback by Quill.
2. Josef Pieper, *Leisure, The Basis of Culture* (Indianapolis: Liberty Fund, 1999 [1952]), pp. 28, 44–45.
3. See my essay "Easy Living: My Two Years in the Bahamas," originally published in *Liberty* magazine, December 1987, at www.mskousen.com.
4. Bertrand Russell, *In Praise of Idleness and Other Essays* (London: Unwin, 1976 [1935]), pp. 14, 22.
5. Lin Yutang, pp. 162–64.
6. Juliet B. Schor, *The Overworked American: The Unexpected Decline in Leisure* (New York: Basic Books, 1991).
7. W. Michael Cox and Richard Alm, "Have a Nice Day! The American Journey to Better Working Conditions," Federal Reserve Bank of Dallas, Annual Report 2000, p. 23. The Dallas Fed puts out the best annual reports (go to www.dallasfed.org).

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A Sense of Community Contradicts the Logic of the Market?

It Just Ain't So!

On September 8, 2001, distinguished *New York Times* columnist Anthony Lewis joined the ranks of those who claim both to appreciate the ways in which freedom and competition produce greater prosperity and to think that we cannot have civilized communities coexisting with that freedom. These contradictory claims were brought to the fore in his mind by a visit to, of all places, Italy, where they have actually tried true communitarianism as recently as 50 years ago. That a visit to a formerly fascist country should make someone argue for stronger communitarianism is nothing short of baffling.

Lewis writes that there are values of community "that may require deviations from the cold logic of market theory." Note of course that logic is only criticized for being "cold" when it is being used by one's opponent. One presumes that Lewis uses it himself to make inferences and persuade others on a regular basis.

But rhetorical analysis aside, is it true that there are some values of community that contradict market principles? Of course it is! But they tend to be values Lewis probably doesn't support, like suppression of dissent (mustn't offend community sensibilities) or the subjugation of the individual to the state (mustn't promote excessive individualism). For example, Lewis relates an anecdote about the Nazis killing the men of one village, Civitella, and how the remembrance of that massacre helps foster a sense of community in the village. But the Nazis were hardly robust individualists! Like Italian fascism, Nazism was a profoundly communitarian movement. The remembrance of the massacre may well promote a sense of community, but I hope those people also remember that it was an ideology in which the community was accorded supreme status that made the massacre possible. Ideas like a master race, or a fatherland, or theocracy, are examples of attempts to foster a sense of community, not examples of unbridled individualism and devotion to free markets.

More to the point, however, Lewis has chosen as an example of something that promotes a spirit of community something that *doesn't* require an abandonment of market principles. The people of that village come together voluntarily to remember the massacre, their sense of solidarity genuine and freely given. Not only does that not contradict market principles, it is an example of what makes market principles work, although it may seem crass to use that terminology.

Markets operate by allowing people to work together voluntarily to achieve genuinely shared goals in the commercial sense. Similar examples of "coming together" in noncommercial senses are harder to see in economic terms, but are the same in their voluntariness (and, often, in their lack of central planning). People are not coerced to commemorate the massacre any more than they are coerced into saying "good evening" to one another or letting the kids play outdoors. These institutions are as much an "invisible hand" or "spontaneous order" as any market.

The logic of markets isn't even "cold": it allows people the freedom to seek happiness and prosperity in their own way rather than having them be told how to live. The logic of markets is that most people are presumptively decent judges of their own interests (even if some are not), and that freedom to trade promotes the well-being of all concerned. That's only a "cold logic" if you think people are

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too stupid to determine their own well-being or are incapable of cooperating in a shared project. It is people who believe those kinds of ideas who end up supporting powerful statist governments, like the ones in Italy and Germany 50 years ago, or in China now.

Community Coercion

Indeed, of Lewis's seven examples of things about that village which foster a sense of community, only two have even the faintest relation to markets and public policy: agriculture subsidies and national health care. But of course, these two *do* involve coercion. Lewis points to olive groves and vineyards that he calls "uneconomic," claiming that they wouldn't exist without subsidies from the European Union. He rhetorically contrasts this with "corporate agriculture" taking over and transforming all those quaint little farms into a single crop. But is there any evidence that, say, Archer Daniels Midland would turn all the olive groves into wheat fields? There is a reason why the crops that grow in Tuscany grow there, and one suspects that world demand for wine and olive oil is not something that requires subsidy. And those subsidies, of course, mean that someone else in the European Union is being made poorer in order to be sure that farming in Tuscany never changes.

Lewis's use of medical care is especially puzzling. He describes a handicapped friend who lives in the countryside, and for whom travel to a city for treatment would be a hardship. So she gets home care, courtesy of the government. But here's the paradox: if these villages have such a sense of community, why would anyone need national-level assistance? Are the people of the village so cold-hearted that they cannot help a member of their community? Of course, they don't have to answer that, since the national government is taking care of the problem. So does nationally subsidized health care really foster a sense of community, or does it hinder it? In any case, the same objection arises in this regard: we're happy this patient gets adequate care, but if someone else is getting inadequate care in order to make this possible, it's not a clear moral victory.

There are arguments Lewis might have made in favor of socialized health care and farm subsidies, but he cannot make them, since he continues to endorse the claim that markets actually do produce greater prosperity for everyone. So he builds his case on vague notions like "a sense of community." After all, everyone likes a sense of community. But we need to keep in mind that most of the good things a community offers have nothing to do with coercive state measures, and recent history's worst evils were uniformly the result of putting too much emphasis on the community over the individual.

The title of Lewis's essay was "A Civilized Society." A civilized society is one that respects individual human beings and doesn't treat them either as incompetent children or as cogs in a machine. What Lewis derides as the logic of the market is the instantiation of that respect in the economic sphere. It has nothing to do with being courteous to one's neighbors. A truly civilized sense of community requires the "logic of the market," in the sense that a civilized community respects individual autonomy and people's ability to cooperate in truly shared projects. □

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Barefoot in the Park

by Ted Roberts

There's an old story about two young brothers who loved to play in the woods around their house. In their games the clearings became the buffalo prairies of the west and the trees, on windy days, were galleons that sailed the seven seas. On quiet days the trees became the ramparts of castles that the boys manned against their invisible foes.

There was one flaw in this fairyland—real snakes lived in the woods along with the imaginary buffaloes, galleons, and castles.

So the mother of the two adventurers urged them to wear shoes—even better, boots. "Snakes bite," lectured Mama. And one of the boys nodded violently and started strapping on his boots.

But the other reflected that plush, velvety cool grass feels good on bare soles; and wading through the sandy-bottom creek between the buffalo prairie and the fortress is better than bubble gum. I'll take my chances, he thought.

Well, that's where the story ends. We never know how the gamble turns out, but we assume that the booted brother never was snake-bit and the barefoot boy always enjoyed the cool green under his feet.

The story says more about life than the whole philosophy section in your public library. Some of us wear boots. Some wear shoes. Some of us go barefoot.

My good friend Herb goes barefoot. He's a biker, but uses the helmet his wife gave him to decorate the mantelpiece. He even leaves his car keys overnight in the car—which boldly squats in the driveway daring any car thieves who happen to work the neighborhood. "So far," says the barefoot boy, "I've gotten away with it for 6,352 mornings." He keeps score.

I tell him about the snakes—so to speak. The risk. He tells me how convenient it is not to conduct a safari every morning searching for his shy, elusive key chain. It's bad enough, says Herb, that he's gotta shave, wash up, find his briefcase and wallet. Then he must remember to kiss wife, Hilda, goodbye.

But he always remembers to bend over a plate of ham and eggs flanked by two slices of buttered toast. "Exponential multipliers of LDL," says Hilda when she's in a mathematical mood. One morning she substituted niacin-fortified bran fiber muffins—for the toast. "Keeps you regular," stated Hilda.

Herb, who usually whispers his marital complaints to the cat, yelled so violently that the startled animal took a suicide plunge off the kitchen counter into a shallow bowl of 1 percent low-fat, non-nutritional skim milk. It sits next to her meal of cat food, enriched with urinary tract supplements. (Hilda's in charge of the cat.)

As you can tell, Herb's house is in turmoil

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over the gods of our new century: health and personal safety.

What an era for H.L. Mencken (who'd die laughing) and P.T. Barnum (who'd die rich). And Chicken Little (who'd be our prophet and king).

Herb reads a lot of black headlines about global warming.

"I knew something was up when I noticed that my heat bill went *down* this past February."

I explained to my carefree friend that more data is required than just one heat bill.

"You might need five or six scattered through the fall and winter months," I warned, displaying my knowledge of the scientific method.

Some scientists agree. They argue that even ten years of data say little about a "trend" on a planet that is *literally* "older than dirt."

I remember the old brick-in-the-toilet trick. We learned about it in the '70s, when there was a three-year arid spell; a mere blink of Mama Nature's eyes. Rainmakers franchised their act. Indian medicine men were leading aerobic rain dance classes for depressed farmers. It was easier to get a glass of sparkling champagne than fresh water in a New York restaurant. Reservoirs in the northeast United States were showing their bottoms of rusty bed springs, Mafia skeletons, and slick truck tires.

That's when the brick-in-the-toilet-tank became popular. I learned about it at a cocktail party, while I was talking to a neighbor who had consumed just enough gin to remain standing, but too much to talk. A perfect conversation partner.

So, as he dozed on his feet I told him that a house down the street, like mine, had just sold for some significant fraction of a million dollars. This was in the days when a man's castle was his mint.

"Well, that's cute," said my swaying pal, "but I've got a brick in my toilet tank." (Why was I wasting my data on a drunk with a brick obsession?) And he went on to say that if 50 million Americans did the same, we'd save an immense number of gallons of water.

The brick mania spread like wildfire as a cocktail party topic. There was talk of the size of the brick. And its density. (If it were over-porous—well, what's the point?) Then there was the "why not two?" school. Double the savings. And if it worked in the toilet—how 'bout a "bathe with a brick" campaign. Even the washing machine was susceptible to the brick concept if you didn't mind a little grit in your underwear.

We mortals continued to talk about the desiccation of planet Earth until a puckish Mother Nature, who sneers at our puny extrapolations, deluged us with three years of incredibly lavish rainfall. Cocktail party talk shifted to lifeboats and levee construction.

And so it goes. There's drought, flooding, asbestos, red meat, nuclear energy, ozone depletion, charcoaled hot dogs, tobacco, and booze. They'll all do you in. But so will fear and trembling. Try going barefoot once in a while. □

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Immigration: An Abolitionist Cause

by Ken Schoolland

One of the most frequent arguments used against opening borders is that it would add to the welfare burden of the state and that innocent taxpayers will be compelled to pay for slothful immigrants.

Slothful immigrants? Students in my international trade and finance classes always get a good laugh at the notion of "slothful immigrants." I ask my students to imagine that they are an employer facing two job applicants. The only thing they know about them is that one is an American and the other is an immigrant. Which is likely to be the worker who will work harder? They always always always say the immigrant is sure to be the harder worker.

If it is logical on economic grounds to deport someone so that they do not become dependent on welfare, then it would make more sense to deport Americans on welfare than immigrants. But no one suggests that. Why?

The people of America proudly declare every Fourth of July "that all Men Are Created Equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness." Yet citizens are presumed to have a right to be in the United States of America and immigrants are not. This is especially odd since all Americans, or their ancestors, were once immigrants themselves.

Note the state control that is inherent in the circular logic of those who declare:

"Newcomers cannot be allowed in, because the state *might* compel us all to pay the potential welfare costs for their upkeep."

It is the same circular logic that is used to control *all* that we do, such as:

"Citizens cannot smoke cigarettes or marijuana, because the state *might* compel us all to pay the potential medical costs for their illness."

"Citizens cannot keep a child out of government schools, because the state *might* compel us all to pay the potential unemployment costs of inadequate training."

"Citizens cannot keep their money out of the Social Security system, because the state might compel us all to pay the potential retirement costs of inadequate funding."

Or, eventually, "Citizens cannot give birth to newcomers, because the state *might* compel us all to pay the potential costs for their upkeep."

If one accepts this logic of the politician, then the right to all individual human action is lost to the state.

Many free-marketeers champion individual freedom in virtually every other aspect of economics except immigration. They may accept immigration theoretically, but only

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after all forms of welfare have been abolished. Which is to say: "Not in my lifetime."

If we truly believe in the notion of personal responsibility for individual actions, then we must hold politicians accountable for the welfare system, not innocent immigrants who had no say in the policy. It would be just as illogical as holding a refugee to account for the tyranny of a dictator that drove her from her homeland.

Arguing the practical side, Julian Simon asserted that it is a misconception that immigrants, as a group, are a welfare burden on taxpayers. Immigrants do so much to contribute to the economic health of a country, and they pay more in taxes than they absorb in benefits, so the continuation of welfare benefits for citizens may well *depend* on their contributions.[1]

Welfare Decay

Is it correct to suppose that in-migration is caused by the existence of welfare? Evidence shows that the opposite is true.

Proof can be found in migration patterns within America's 50 states, where there are no border guards and virtually no language and cultural barriers. Do people move between states to find the most welfare? No! *Just the opposite.*

States that give the most welfare have the most out-migration. States with the least welfare have the most in-migration.

Take my home state, Hawaii, for example. Hawaii is the most socialistic state in America, with by far the most generous welfare benefits of the 50 states. According to a Cato Institute study by Michael Tanner and Stephen Moore, the six basic welfare benefits in Hawaii (six among a possible 77 welfare programs) could provide a mother and two children with the equivalent of a pre-tax income of $36,000 or a wage of $17.50 an hour.[2] This is a lot of money and by the "welfare-magnet theory" should have attracted every welfare mom in America.

It hasn't. According to recent Census data for the 1990s, Hawaii experienced a net domestic out-migration of 9 percent of the population to other states. In fact, all the top welfare regions—Hawaii, Alaska, Massachusetts, Connecticut, and the District of Columbia—experienced net domestic out-migration to other states.

Hawaii has an ideal climate, fabulous beaches, wonderful people, but the economy is in decline. In fact, it is the only state in the nation that experienced real economic contraction the entire decade of the '90s. No wonder, since it has been chronically listed as the number-one "tax hell" in the country by *Money* magazine.

The legislature feels it has to raise taxes to pay for the welfare, and by raising taxes the lawmakers drive people away. The same is true for the second-highest welfare state, Alaska, which had the second-slowest growing economy in the nation for a decade.

Contrast this with states that grant little welfare. Mississippi provides only a third of the welfare money that Hawaii offers. In fact, the median income of a *worker* in Mississippi is $6,000 less than what a family can get on *welfare* in Hawaii. Did everyone abandon Mississippi to get on the gravy train in Hawaii?

Just the opposite. In fact, all five states at the very bottom of the welfare list—Mississippi, Alabama, Arkansas, Tennessee, and Arizona—experienced net domestic in-migration from other states. The deserts of Arizona and Nevada, with some of the lowest taxes, were the fastest growing states in the nation.

There's no doubt about it. In-migration is caused by opportunity, not by welfare. Of course, there are high-profile exceptions, but people who are too lazy to work are also too lazy to move away from everything that is familiar to them. This is generally true within a nation and even more so between nations. It is the courageous of the world who are far more likely to risk everything to go to a new and potentially hostile land where the language, the customs, and the people are all unfamiliar.

Tyrant and Corporate Welfare

There are *other* forms of welfare, however, that *do* contribute mightily to migration.

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Top 5 Welfare States:	Hourly Wage Equivalent of Welfare (1995)	Net Domestic Migration (%Δ 1990–99)
Hawaii	$17.50	– 9 %
Alaska	15.48	– 4
Massachusetts	14.66	– 4
Connecticut	14.23	– 7
Washington, D.C.	13.99	– 24
Bottom 5 Welfare States:		
Arizona	$6.78	+ 16
Tennessee	6.59	+ 7
Arkansas	6.35	+ 5
Alabama	6.25	+ 3
Mississippi	5.53	+ 2
	Sources: Cato Institute	Bureau of Census

These are tyrant welfare and corporate welfare.

The U.S. taxpayer has been compelled to provide tyrant welfare to an extremely sordid gang of thugs over decades: from Duvalier, Mobutu, and Marcos to Pahlavi, Noriega, Suharto, Saddam Hussein, and even Osama bin Laden.

The Center for Defense Information states that the United States sells weaponry to the political elite in 150 nation-states—four-fifths of these nation-states are undemocratic. Two-thirds of that number are listed by the U.S. State Department as having governments that are abusive of human rights.[3]

Since the end of the Cold War and the beginning of the new drug wars, the American share of worldwide arms transfers climbed spectacularly to 70 percent, most of which has been paid for, directly or indirectly, by U.S. taxpayers.[4] This has surely contributed to the tenfold increase of refugees in recent decades.

Still another form of welfare directly leads to immigration. This is corporate welfare known as "protectionism." Because of trade barriers, American, Japanese, and European consumers are prohibited from buying products that workers and entrepreneurs are willing to produce abroad.

Hundreds of billions of dollars' worth of earnings could lead to prosperity for these people in their homelands. But those earnings are stopped by corporate welfare protectionism.

This is especially true in the agricultural and textile sectors that are particularly well-suited to development in the Third World, but still experience extraordinarily high trade barriers. *The Economist* magazine indicated the magnitude of agricultural trade barriers alone: "If rich countries were to remove the subsidies . . . poor countries would benefit by more than three times the amount of all the overseas development assistance they receive each year."[5]

Immigrants are not lured from their homelands by the prospect of generous welfare benefits so much as they are driven from their homelands by tyrant welfare and protectionist corporate welfare. Reforming these policies could do much to improve conditions for people the world over.

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Since the September 11 terrorist attacks on the World Trade Center and Pentagon, the airwaves have been filled with cries to end immigration as a means of keeping terrorists far away. It is understandable that, in the fearful panic of such a crisis, people will clamor for protective measures. But to gain real protection, reason must prevail over collectivist repression.

Government intelligence and security agencies, with an abundance of wealth, personnel, and technology at their disposal, failed miserably in a decade-long effort to root out a terrorist network with global tentacles that probably originated in some of the poorest nations of the world. This was not only a monumental failure of government at its primary security function, but also a failure of American foreign policy. To ask for an end of immigration sidesteps responsibility for this failure and scapegoats refugees who are also the victims of terror.

Would America be more secure if all newcomers were banned? Should tourism and business travel be stopped? Should people be stopped from crossing state borders as well? No. This is as illogical as trying to prevent future crime by banning births. Much more is lost than gained by such measures.

To paraphrase champions of the Second Amendment, "If you outlaw migration, only outlaws will migrate." Far better that *individual* criminal conspirators be effectively tracked and prosecuted.

History of Invitation

It is a fact of American history that invitations have always been extended to immigrants by people who were eager to employ them. People were welcomed because they offered labor that was not available in this growing country.

Immigrant labor made growth possible, and companies offered contracts to thousands of people who worked harder, worked longer, worked cheaper, and worked at greater personal risk than those who came before. They built railroads over mountain ranges, and they built farms in the plains and deserts.

That is, they worked until a protectionist government responded with legislation to envious domestic labor groups who would not compete. It is the pattern of history that once immigrants become settled and comfortable, they seek some pretext for keeping out other immigrants who are still more hungry and more diligent.

The first of these laws reversed American openness by appealing to blatant, collectivist racism. The Chinese Exclusion Act of 1882 was a shameful act in a nation-state that two years later carved at the bottom of the Statue of Liberty:

> Give me your tired, your poor,
> Your huddled masses yearning to breathe free,
> The wretched refuse of your teeming shore,
> Send these, the homeless, tempest tossed to me.
> I lift my lamp beside the golden door!

First they targeted the Chinese, then it was the Japanese, the Mormons, the Muslims, and the Catholics from southern Europe. They also outlawed political rebels. Ironically, laws against the admission of political rebels would have banned all of America's original revolutionary heroes. It was collectivism in all of its primitive, religious, and ethnic variations.

Contract labor was forbidden, and churches and charities were not even allowed to pay the passage of desperate refugees. And then there were the Jews.

The Jews were invited by their cousins in America who would have taken them in and helped them establish livelihoods, even given them a chance to fight against Hitler's death machine, but they were turned back. They were barred from a safe haven by the millions—and condemned to Hitler's gas chambers—by a law, the National Origins Act, the quota system.

Let us not forget that closing a door from outside a prison-state has the same effect as closing a door from inside a prison-state. Either action prevents escape. Either action is collaboration with tyrants against their victims.

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Slavery by Any Other Name

It still goes on today as Cubans, Iraqis, Burmese, Sudanese, and North Koreans are hussled back to slave states. The mother of Elián Gonzalez died fleeing both Castro's tyranny and Clinton's border patrol that would have returned her to Castro's tyranny. American fishing vessels and cruise liners are even fined $3,000 per head for the "crime" of rescuing refugees at sea and bringing them ashore.[6]

Hard as it is to accept, we have not progressed from the horrible time when runaway slaves were captured and forcibly returned to private plantation masters. Sally Jane Driscoll, a senior writer for the Ayn Rand Institute, says:

> On May 24, 1854, Anthony Burns, a young black man working in a clothing store in Boston, was arrested for fleeing from a slave owner in Richmond, Virginia. Under the Fugitive Slave Act of 1850, public officials in the free states were required by the federal government to help recapture escaped slaves and return them to bondage. Northerners who refused to help risked heavy fines and jail. . . .
>
> Fifty thousand Bostonians lined the streets to watch as Anthony Burns was taken to the ship that would return him to Virginia. He was escorted by Boston police, Massachusetts militia and U.S. Marines. The troops had orders to fire as needed upon the crowd without warning. Along the route to the dock many protesting Bostonians were wounded by armed soldiers.
>
> The people of Boston rightly defended Anthony Burns, but all their legal reasoning, emotional pleas and desperate actions were ineffective. He had escaped from slavery only to be sold down the river by the federal government in repudiation of the principle of individual rights, the very principle our government had been established to defend.[7]

How many people would still count themselves as abolitionists today? How many would join massive demonstrations or the underground railroad on behalf of immigrants who are escaping slave states? It just isn't happening.

Ms. Driscoll has reminded us that as history passes before us, we will be judged one day by our descendants on whether or not we have advanced the cause of liberty or whether we have stood in the way.

I wish to say in the strongest terms I can muster, emboldened by the courage and fortitude of immigrants throughout the world and throughout history, that we should not be debating reasons for keeping people under the thumb of tyranny. We should not be devising schemes and rationalizations for the restriction of immigration. The world is full of very eloquent and powerful people who have long been serving *that* task.

Rather, let us take the part of the abolitionists of 150 years ago, those who fought against seemingly insurmountable fear, prejudice, custom, and law to champion freedom. This is practical, humanitarian, and, above all, ethical. Let us be a part of the drive for liberty today. Let us champion the millions of immigrants who are seeking liberty in the same manner that we would if we were in their shoes. □

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IDEAS ON LIBERTY
JANUARY 2002

A "Think Tank" for Those Who Don't Think

"The ideas of economists and political philosophers, both when they are right and when they are wrong," wrote John Maynard Keynes, "are more powerful than is commonly understood. Indeed the world is ruled by little else."

Keynes was wise to include the phrase, "both when they are right and when they are wrong." Unfortunately, it's all too true that good ideas must compete with bad ideas and sometimes, at least temporarily, the bad ones win out. Worse yet, even a silly or superstitious notion that barely rises to the level of an idea can wield great influence. And in our midst are crackpots who dredge up discredited and discarded ideas, dress them up in new disguise, and hawk them all over again.

Imagine a group of people—now, not 500 years ago—who insist that the world is flat and that the sun revolves around it. They seek to propagate these concepts to a broader audience, so they form the Society of Flat Earth-Centrists. Ignoring science and experience, they turn out papers and hold meetings to contradict the conventional wisdom. We would demand proof of their claim, not mere flimsy rhetoric, as we heap on them mounds of evidence to the contrary. While we might be tempted to applaud their zeal, most men and women of sound mind would write them off as misguided, mystical, or mad.

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In these enlightened times a "Society of Flat Earth-Centrists" seems beyond the pale. But something close to it was unveiled in Washington only last summer. The subject was not the hard science of physics or astronomy but the more pliable disciplines of political science and economics.

An article in the August 14 *Washington Post* announced that a new "socialist think tank" was being formed in Washington, D.C., called the "American Socialist Foundation." Its officials declared that they will "focus on contemporary economic and political issues and develop socialist analysis and policies to address them." Among other things, their secretary-treasurer was quoted as saying, "Socialists favor public ownership of the media."

I acknowledge that I am in the "think tank" business myself. A reader might easily interpret any skepticism about this group on my part as a bit of competitive pique. I want to say up front that it's not the competition that bothers me; rather, it's the preposterous assumption implicit in the very announcement of a "socialist think tank." Putting those words in juxtaposition is no different than placing "fire" aside "ice" or putting "chaste" next to "Clinton." Use one or the other, but don't put them in the same sentence, please.

"Socialism" and "think tank" are, in my humble view, mutually exclusive. Arguably, socialism is the opposite of "think." It does, however, produce lots of tanks. Tanks to suppress people who actually *do* think. The one quintessential, unassailable truth that

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distills from centuries of experience with socialism is that when it isn't arrogantly bossing people around, it's stifling, strangling, or killing them. It is based on the ludicrous assumption that people who have a hard time planning their own lives, and often fail at it, can nonetheless plan the lives of not just a handful of others around them, but the lives of millions they don't even know! The result has been everywhere and in all times what Ludwig von Mises brilliantly described decades ago as "Planned Chaos."

Limiting Opinion

State ownership of the media. Now there's a winner of an idea, or so argues the new socialist think tank. In free markets, one can not only purchase at minuscule cost an almost infinite array of viewpoints, one can also buy a printing press or a bullhorn or a company and manufacture one or more viewpoints oneself. What's the point of state ownership, financed by taxation? Only an idiot would argue that state ownership broadens and multiplies available opinion; state ownership invariably exerts a coercive bias in the public square—limiting, if not ultimately monopolizing, opinion. When socialists come to power, their attitudes and actions are never inclusive and inviting. "Why think when a tank will do?" would seem to be their guiding principle.

There are some settled truths in the world, derived from such things as science, economics, human experience, facts, evidence, reason, and logic. The sun comes up in the east. The earth is spherical. Markets are immeasurably more rational and productive than central planning and state ownership. Heavens, isn't that what even a moron should sense from the failure of every short-lived socialist "paradise" the planet has ever known?

While it's tempting to cite reams of research, piles of statistics, and mounds of bodies to make the case against socialism, that's been done rather thoroughly by countless others. I rest my case against it on the observation that socialism by definition does not rely on the free will and peaceful interaction of sovereign individuals to verify its efficacy. Indeed, the very fact that it reduces to force is testimony to its manifest failure. If I'm suspicious of any notion that favors the dragoons over persuasion, the fist over the podium, then I guess I'm guilty of favoring civilization over barbarism.

Socialists take aquariums and turn them into fish soup. The endless socialist quest for whatever it is socialists quest for all adds up to pitifully little—nothing more, in fact, than what French economist Frédéric Bastiat dismissed more than a century and a half ago as "legalized plunder."

So it is that this new organization in Washington, devoted to socialism, is not a think tank or I'm Florence Nightingale. It is a Ministry of Propaganda dedicated to advancing mysticism and nonsense. Central planning, state ownership, lots of bureaucracy seizing and spending other people's money—the essence of socialism, in other words—should no longer be elevated shamelessly to the status of a respectable science.

Diversity of ideas is a great thing, a pillar of a free and enlightened society. No inane scribbling should ever be outlawed, no matter how unpopular. But that doesn't mean every inane scribbling deserves the status and esteem of an argument. Absolute monarchy as a political concept may still have a kernel of a credible case, but socialism as an economic system does not. It's been tried a million times. It doesn't work, it steals from people, and it lays waste to both the land and the spirit. Get over it. □

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IDEAS ON LIBERTY
JANUARY 2002

Washing Your Clothes Washington's Way

by Michael Heberling

Our home is becoming less and less our castle as the government moves in . . . one room at a time. First there was the bathroom. Working toilets were outlawed in 1992 in favor of the environmentally friendly government toilets. (See my "The Federally Mandated Toilet Still Doesn't Work," November 2001.) On January 1, 2004, the federal government will move into your laundry room as well. On that date you will no longer be able to buy a washing machine that works, like the one you currently use. Stores will be able to sell only the government-mandated washing machines, which are 22 percent more "efficient" than the archaic washers of today. Three years later the required level of efficiency improvement will rise to 35 percent.[1] However, you shouldn't complain or be angry that your freedom of choice is being taken away. You should instead be grateful. For you see, the government washing machine will not only "save" you money, it will also be good for the environment.

For those of you who can't wait until 2004 to save both money and the environment, there is good news. Those "efficient" environmental washing machines are available right now. They use 25 percent less water and 40 percent less energy. This translates into lower water, gas, and electric utility bills.

Unfortunately, there is a very serious disconnect here. If these new "efficient" washing machines are so wonderful, why does the federal government need to outlaw the primitive, costly, and inefficient old washing machines? If these new washing machines are so fantastic, shouldn't they be selling like hotcakes at your local department or appliance store? Yes, they should. The problem is . . . they aren't. They make up less than 10 percent of the new washer sales. This fact should raise a red flag that something is definitely amiss.

Why don't the consumers like these new "efficient" washing machines that are so strongly endorsed by the federal government and by environmentalists? Well, for starters the washing machine that is advertised to "save" consumers so much money will cost about $241 more than an old-style washing machine. Many would-be customers are also freaked out by the front-loading (as opposed to top-loading) design. This discovery leads to some very down-to-earth questions like: Can children open that front door while the machine is running? Will water go all over the floor if they do open it? If I find a lone sock after the machine has started, can I open the door to throw it in?

There are some other facts that would-be consumers should be aware of (and that the government conveniently fails to disclose). Most of the new washers will use a "tum-

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bler" system where the laundry load rotates as it does in a clothes dryer. While a traditional washer uses gravity as an ally, the new horizontal-axis washing machine must be reinforced to accommodate what is essentially a "dryer filled with water." This means that the new washers have more parts and are heavier than the old fashioned machines. Translation: The environmental washing machines deplete the world's "limited natural resources" faster than traditional washers. (That's certainly not going to make Gaia, the environmentalists' Earth Goddess, very happy.) What makes the government-approved washer so efficient is that it has eliminated the "agitator," the critical cleaning component of the traditional washer. With the government washer, you will no longer be able to use ordinary laundry detergent. If you do, watch out for oversudsing. If you use less detergent, it won't get the clothes clean. To solve this problem you will need to purchase "special" detergent. ("Special" is a euphemism for more expensive.)

Skepticism Called For

Given that our government was less than forthcoming about the problems associated with the environmental toilet, we should be skeptical this time of any government claims relating to "efficient" washers. It is very hard to get the "big savings" promised by former Energy Secretary Bill Richardson if the cost of the product goes up by 59 percent. There would need to be a phenomenal savings in water and energy usage to offset this steep price increase. To achieve any kind of savings (let alone "big savings"), the U.S. Department of Energy (DOE) had to present a very unrealistic scenario in which the government washer is used 392 times a year (or 7½ loads each and every single week) over a period of 14 years.[2]

There are two major problems with this. According to the Mercatus Center, less than 15 percent of the washers get such heavy use.[3] And most of us will not keep our washers as long as the DOE says we will. Because Americans move so frequently, many washers get left behind even though there may be a number of useful years left on the machine. Also, lots of us will decide to buy a new washer (before realizing the "big savings") when faced with an expensive repair bill.

In fact, maintenance costs for these new machines could be significant. Whenever there is a revolutionary design change in any product, expect problems. It should be noted that there has already been a recall by one of the major washer manufacturers. For the record, the traditional washer made by this same manufacturer was not recalled. If nothing else, the old-style washers are reliable. They have been around for a long time, and they have been improving every year. The government estimate of "big savings" did not even address the likelihood there would be higher maintenance costs associated with the environmental washer.

In calculating the total cost of ownership, the government made two other questionable assumptions. The DOE used an inexplicably low discount rate. According to the Competitive Enterprise Institute, it should have used either an average credit-card or consumer-loan rate. CEI also states that the Energy Department "uses highly problematic forecasts of energy prices extending decades into the future."[4] By using a low discount rate and exaggerating energy costs, the government significantly overstates the hypothetical future savings.

With this information, it would appear that very few Americans will reap any savings from this "efficient" washer. In fact, most consumers will actually be monetarily worse off with a government washer. However, the biggest losers will be America's poor and elderly. For families with annual incomes under $20,000, only 9.8 percent do as many loads as the DOE estimates. But the DOE did not use the same figure for low-income families as it did for the general population. It used an even higher figure of 410 washloads per year instead of the already questionable 392. From the DOE's perspective, the poor will benefit more than any one else with a government washer.[5]

Among Americans 65 or older, only 11.3 percent do as many washloads as the government estimates. Even with the DOE's

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rosy (but unrealistic) scenario, 28 percent of the elderly will actually suffer a net cost increase with the "efficient" washer. Before the government got into the consumer appliance business, many senior citizens, especially those with back trouble, did not like the standard front-loading dryers. They are definitely not enthralled with the idea of now having to contend with a front-loading washer as well. This will certainly come as bad news, but our "Earth First" government is not going to make any exceptions to this mandate. America's seniors are going to have to bend over for the environment like the rest of us.

The government mistakenly believes (or does its best to convince us) that low operating cost is the most important, if not the only, product criteria of concern to consumers, be it for automobiles or for washing machines. This is clearly not the case. For washing machines, consumers consider reliability and low price to be far more important. As is the case for almost all products, consumers weigh many factors in their purchase decision. In addition to the criteria already mentioned, capacity and ease of use are also important considerations.[6]

Manufacturers' Complicity

What about the washing machine manufacturers? Aren't they outraged that the federal government is dictating what they can, and cannot, sell to the public? Ironically, they were a major player in this conspiracy. On May 23, 2000, a cabal composed of appliance manufacturers, energy-efficiency advocates, environmentalists, and the federal government agreed to foist this monstrosity of a washing machine on American consumers, whether we like it or not.

Participants in this landmark government-industry agreement to save the environment included: the Association of Home Appliance Manufacturers, Alliance Laundry Systems, Amana, Asko, Frigidaire, General Electric Appliances, Maytag, Miele, Fisher & Paykel, Whirlpool, and the Department of Energy. Other organizations that supported the agreement included the Natural Resources Defense Council, the American Council for an Energy-Efficient Economy, the Alliance to Save Energy, Northwest Power Planning Council, the City of Austin, Pacific Gas and Electric Company, the Appliance Standards Awareness Project and the California Energy Commission.[7]

Of all these organizations, which one represented the consumer?

After the agreement was made, there was a lot of backslapping from the participants and a flurry of press releases that made some rather extravagant (but fortunately unprovable) claims.

"Today's announcement is a victory for consumers, manufacturers, and for the environment. The standards announced today will save enough electricity to light 16 million US homes for 25 years, while cutting greenhouse gas emissions by an amount equal to that produced by three million cars every year," said then-secretary Richardson.

"As a result of the new agreement, consumers nationwide will save nearly 5 quadrillion Btu (British thermal units) of energy and reduce water use by some 10.5 trillion gallons over a 25-year period. That translates into a savings of as much as 18 gallons of water per wash," chimed in a DOE news release.

"The clothes washer standards that manufacturers have agreed to will reduce hot water use and the total energy consumption associated with clothes washers by about one-third. As a result, consumers will cut their energy, water, and detergent purchases by over $25 billion during the next 30 years," said Howard Geller, executive director of the American Council for an Energy-Efficient Economy.

"This is a significant victory for the environment. The water savings will reach up to 11 trillion gallons, meaning less water needs to be pumped from America's aquifers and rivers, and less strain on already overtaxed water and sewer systems," said Andrew deLaski, executive director of the Appliance Standards Awareness Project.[8]

"Whirlpool endorses this historic agreement that not only represents a significant advancement in energy efficiency, but will also benefit

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the environment," said Jeff Fettig, president and COO of WhirlpoolCorporation.

The washer manufacturers' willingness to cut a deal with the government at the expense of the consumer had less to do with altruistic environmental concerns and more to do with crass monetary incentives. By having the government guarantee a market for the more expensive "efficient" washers, the manufacturers can expect a financial windfall. And to sweeten the pot even more, the government will give each manufacturer of those washers a generous tax credit for each machine that is produced.

If the pharmaceutical industry had collectively agreed to restrict consumer choices and to raise prices like the washer manufacturers, the news media, Congress, and consumer-advocate groups would have demanded that the Justice Department initiate antitrust proceedings under the Sherman Act. However, since our government is no longer for the people, but is rather of the environment, by the environment, and for the environment, any activity or collusion to restrict trade, no matter how bizarre or illegal, is condoned so long as it is labeled "Earth-friendly."

On January 12, 2001, eight months after the washing machine manufacturers, environmentalists, and the federal government agreed to sell out the American consumer, the Department of Energy issued its regulations for "efficient" washers. This was just one of many 11th-hour environmental regulations that were railroaded through the system by the departing Clinton administration. Of these, the "reducing arsenic in the water" regulation received the most media attention. Opposing the "arsenic" regulation made the Bush administration look like it was . . . against the environment. To avoid another public-relations disaster, the Bush administration has apparently decided to minimize future confrontations relating to environmental regulations. This may help explain why the Bush administration approved the efficiency standards for washing machines on April 12, 2001.[9]

Given the government's success in mandating environmentally friendly toilets and washing machines, it would be safe to assume that it will become even more emboldened to dictate what products we can, and cannot, buy in the future. As it turns out, the government air conditioner, heat pump, water heater, and refrigerator are already in the works. You can bet that these products will not only provide "big savings" for the consumer, but will be great for the environment as well.

As our country continues to move from a market-based economy to one where centralized planning dominates, we can look forward to simplified one-stop shopping at a local government store in the not-too-distant future. Although it will have a very limited selection, all products in the government store will be guaranteed to be good for the environment. Even though the American "Yugo" will be a deathtrap, it will get 50 miles to the gallon. The government stove, dishwasher, and refrigerator will result in more deaths from salmonella and E. coli, but they will definitely provide "big savings" for consumers, that is, if we live long enough.

In the near term, we must accept the fact that this government washing-machine nightmare is not going to go away. So plan to keep your primitive (but reliable and easy to use) washer until the summer of 2003. Then go out and buy the very best primitive washer you can find while it is still legal to do so. Plan to keep it for at least 14 years (the DOE figure) and pray that, in the interim, our government comes to its senses. □

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IDEAS ON LIBERTY
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Tyrannical Wrecks

by Tom Siems

Once upon a time, there lived a small herd of dinosaurs that longed for freedom and individual opportunity. To pursue that dream the small herd left its homeland on a journey that led them to a distant island.

The island was beautiful. And the members of the small herd learned the secret to economic growth by doing what each did best and then trading for the rest. By pursuing their own self-interests there seemed to be an invisible hand working within the community to organize its activities most efficiently.

Meanwhile, the ruling dinosaurs from the small herd's homeland—the pterrordactyls—began to increase taxes and make life miserable on the island . . . all without the small herd's representation. So the small herd declared independence from their homeland in order to form a more perfect union, establish justice, insure domestic tranquility, provide for a common defense, promote the general welfare, and secure the blessings of liberty.

With this declaration, however, came the responsibility that the small herd be protected and well represented. The small herd chose as its leader the largest and strongest dinosaur: the *Tyrannosaurus Rex*. Of course, to provide a safe island, T-Rex received a regular allowance that was collected through various taxes on the herd.

For a brief time, life on the island was indeed happy. The island soon became known as "the land of opportunity," and many other small herds from distant lands gathered within her borders and were welcomed with open arms. Through innovation, specialization, education, trade, individual freedom, private ownership of property, and the ability to enforce contracts, the United Island Herd prospered and grew.

But, as seems to be the nature of dinosaurs, voices of dissension and bitter complaints against T-Rex could be heard. There were calls for better roads, better schools, better protections, and better health care. There were some who thought that T-Rex should be given increased powers and responsibilities to control the herd and manage the economy. There were some who argued that many dinosaurs in the herd were too weak, or had brains that were too small, to make good decisions for themselves and thus needed T-Rex to better care for them now and into the future. It seemed that dependence on others in the herd diminished, while dependence on T-Rex increased.

After one particularly difficult economic period, the calls got louder and louder for T-Rex to become more involved as the herd's primary caregiver and provider. The economy had changed: transforming the

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way dinosaurs worked, where they worked, and with whom they worked. As a result, the herd's economic security was threatened to a greater extent than ever before. To address these concerns, T-Rex conceived a number of social programs that made him grow to an enormous size by taking away more and more wealth and power from the herd.

One initiative that T-Rex began was a system to take wealth from the working herd and immediately give it to those who had already completed a number of years of work. Of course, the first retired herd liked the idea very much because the members paid little into the system but collected plenty, providing an attractive return. Many subsequent retired herds also experienced attractive returns as T-Rex expanded benefits.

Unforeseen Changes

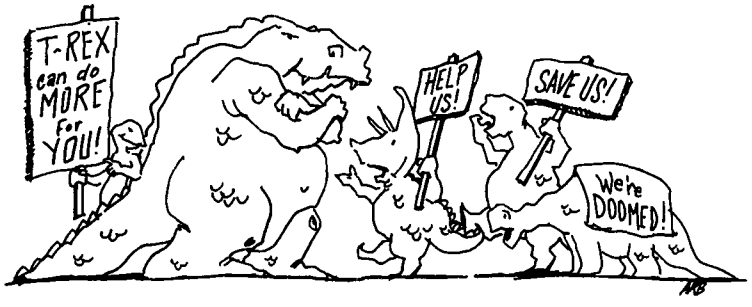
But a couple of unforeseen changes developed. First, the dinosaurs began living longer, thereby taking more from the system than originally planned. Second, the herd was hatching fewer dinosaurs, which required more working dinosaurs to pay the benefits promised to retired ones. Third, T-Rex never established an accumulated fund for the system, but rather used some of the surplus to pay for new roads, improved border protections, and other initiatives demanded by the herd or forced on it by T-Rex. With lower and lower below-market returns that were increasingly unattractive for subsequent generations, the system was in crisis.

Now, it was obvious that the system couldn't go on forever. Something had to be done. T-Rex proposed the usual remedies—tax increases and benefit cuts—but the herd had difficulty believing they would really solve the system's problems in the long run and was increasingly intolerant of such fixes.

There was, however, a small minority within the herd that proposed privatized individual accounts as a viable option to save the system. Such a prefunded plan promised working dinosaurs—now an endangered species—greater control over and choice of investment options. Moreover, the plan would protect a dinosaur's retirement funds and provide an inheritance.

But the howls and groans from many in the herd drowned the voices of the privatization proponents. Instead of focusing on free-market solutions to strengthen the unsustainable system, opponents attacked. In the end, when nothing could be agreed on to re-engineer the system for the new century, T-Rex imploded.

And the herd became extinct. □



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Uncle Sam's Retirement Scam

The legendary third rail of American politics, Social Security, is lighting up. The administration has proposed to move, ever so gently, toward a private system, while a bipartisan congressional coalition is determined to keep Americans locked into an inferior retirement system.

Social Security was long viewed as America's most successful social program. But it worked only because of demographics: when first created, dozens of workers supported each worker. Taxes were low, benefits secure.

But Ponzi schemes succeed for only a limited time. When Franklin Roosevelt was posing as the savior of the elderly, almost half the people died before collecting their first check. No longer, however. Most people receive not just the first check, but many more. By 2050 Americans will be living 12 to 14 years longer, on average, than they were in 1940.

As people live longer and parents have fewer children, the population itself is aging. Thus as the Baby Boom bulge hits retirement in the coming years, every retiree will become dependent on just two workers, down from three today. That will destroy the system.

Indeed, in just 15 years Social Security will be paying out more than it takes in. The program's defenders argue that $5.4 billion will be stockpiled in the Social Security "trust fund," but the money has been spent. All that sits in Social Security's vault are government IOUs to itself, which will require the government to hike taxes, borrow money, or cut other spending.

Even Senate Democratic leader Tom Daschle admitted in 1996 that "there is no such fund." If the system's special-issue bonds, which are not marketable to outsiders, disappeared tomorrow, nothing would be different. To pay promised benefits the government would have to hike taxes, borrow money, or cut other spending.

Perhaps the oddest argument comes from economist Paul Krugman, who contends that the trust fund is "a real asset" because "every dollar that the Social Security system puts in government bonds—as opposed to investing in other assets, such as corporate bonds—is a dollar that the federal government doesn't have to borrow from other sources." How can someone so smart make such a silly argument?

The dollars collected by the Social Security (FICA) tax were originally real assets. But the government has spent them. All that remains are some paper IOUs sitting in a government file cabinet.

The deficits will grow as the baby-boom retiree bulge grows. Deficits will go from tens to hundreds of billions a year.

Here Krugman is a bit more honest than his political allies. Don't worry about the meaningless trust fund, he writes. Just use general tax revenues to pay the bill.

At least that would destroy the illusion, long fostered by the Social Security system itself, that it is an actuarially balanced annu-

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ity program. Everyone would see it for a tax-funded welfare scheme, like any other.

But the taxes won't be cheap. The annual deficit will rise from $93 billion in 2020 to $271 billion in 2030 to $318 billion in 2035, in today's dollars.

Krugman, like most other welfare-state enthusiasts, suggests repealing the Bush tax cut. However, Social Security actuaries warn that doing nothing now will require doubling the system's "cost rate," essentially, the tax rate, by 2031, when the last of the boomers reach the usual retirement age.

Such a hike might not bother a well-compensated academic like Krugman. It would understandably anger most other Americans.

He could argue that higher taxes wouldn't be so bad if the return were good. But today the average return is less than 2 percent.

Many younger workers will actually lose money—a higher-income 38-year-old will have to live to 92, nine years past his life expectancy, just to break even. Minorities, who have shorter life spans, and women, who are disproportionately dependent on Social Security, do even worse.

In contrast, the average annual rate of return on private investment over the last 75 years, through the Great Depression, is almost 8 percent. Safe investments such as Treasury bonds pay about 3.4 percent.

It has taken only two decades for Social Security to go from Sure Thing to Rip-Off. In 1980 an average worker got back his and his "employer's" taxes, plus interest, in just 2.8 years. It will take 16.8 years in 2001. In 2030, assuming no tax hikes or benefits cuts, it will take 23.5 years.

But, of course, those, along with borrowing, are the only alternatives to "save" the system. Using the intermediate projections of the Social Security Trustees, Congress would have to hike taxes by 37 percent or cut benefits by 26 percent to fulfill its promises in 2040.

Or it could engage in an orgy of borrowing—about $7 trillion by 2040 and $47 trillion by 2075, in current dollars. This would be a larger share of GDP than at the end of World War II.

Thus the only way to look at Social Security is that it is in crisis. People are getting ever less for more. The trend will only accelerate as the baby boomers retire.

The answer is obvious. Allow people to invest their money in private, actuarially sound investments, rather than have it tossed into Social Security's black hole.

This is no radical concept. Nearly half of American families now invest in the stock market. Moreover, countries ranging from Chile to Britain to Sweden to Australia have moved or begun to move to fully funded private pension programs in place of government Ponzi schemes like Social Security.

Indeed, even President Bill Clinton was prepared to push for private accounts before the Monica Lewinsky scandal struck, forcing him to rely on left-wing allies to survive. And House Minority Leader Richard Gephardt, notable for the demagogic abuse he recently poured on the President's National Commission on Social Security Reform, suggested in 1998 that private accounts "can be part of the answer."

The alternative is what Democratic Commission member Robert Pozen calls the "do-nothing plan." Sit around while the system crumbles, then enact draconian tax hikes while cutting benefits. Such a strategy won't bother the wealthy, who will have ample private investments to fall back on. It will wreck the retirement of the poor and disadvantaged, who foolishly relied on the government for security. □

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Reducing Class Sizes: Other Things Are Not Always Equal

by E. Frank Stephenson

> "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."
>
> —HENRY HAZLITT

One frequently hears economists use the phrase "other things equal." For instance, other things equal, an increase in the price of gas will reduce the quantity of gas demanded. While this approach is often a useful framework for analyzing the effects of economic events, sometimes one cannot reasonably claim that other things are equal.

Consider the calls for reducing class sizes in government schools. Proposals at both the state and federal levels have called for class-size reductions in an effort to boost student performance. Typically, such proposals have implicitly assumed that teacher quality will remain constant when hundreds or thousands of additional teachers are hired to lead the smaller classes. This assumption is mistaken.

Assume a school district currently has 1,000 students in 40 classes of 25 students each. Suppose the school district reduces the classes to 20 students each by hiring ten additional teachers. Proponents of smaller classes rarely specify exactly how the reduction is supposed to improve student performance, but common sense suggests the benefit would come from the teachers' devoting more time to students individually, or perhaps from the teachers' ability to better control smaller-sized classes. But how much the 20 students benefit is unclear; if one assumes that a teacher spends half of each six-hour school day giving individual instruction, the amount of one-on-one time for each student rises from 7.2 to 9 minutes per day. While the extra attention should help students, the benefit of an extra two minutes per day is not likely to be large.

Lest we forget, there were initially five other students in each class. What happens to them? They get placed in classes with 15 other students and should also be able to receive more personal attention from their teachers. Therefore, at first glance, one would expect these students to benefit as well, though, as discussed, how much is unclear. Note, however, that these students will be taught by the teachers who were hired to reduce the student-teacher ratio. Why should this matter? Because, for reasons I discuss below, the ten newly hired teachers

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Effect of Reducing Class Size on Student Performance

School level	Number of Studies	Significantly Positive	Significantly Negative	Statistically Insignificant
All levels	277	15%	13%	72%
Elementary	136	13%	20%	67%
Secondary	141	17%	7%	76%

Source: Eric A. Hanushek, "The Evidence on Class Size," Table 4.

are likely to be less skilled than the 40 teachers employed before class size was reduced. Thus the students placed in classes with the new teachers may actually be harmed by the reduction in class sizes. And in the aggregate, there may be little effect on student performance; the students with the 40 experienced teachers may benefit marginally but the students with the ten new teachers may be worse off.

Why are the ten new teachers likely to be less skilled than the 40 teachers initially employed by the school system? Simply put, the school district has to hire teachers it would not have otherwise hired. In a typical year the school district may need to hire, say, five new teachers to replace those who retire or resign. Presumably the district does this by choosing the best five candidates based on transcripts, recommendation letters, and personal interviews.

The initiative to reduce class sizes, however, causes the school system to hire 15 new teachers, ten of whom would have been passed over in a "normal" hiring year for having weaker credentials. This reduction in teacher quality might be particularly noticeable in rural areas (where school systems probably have smaller pools of qualified applicants), in fields like science and math, which already have shortages of qualified teachers, and in rapidly growing areas that are already hiring a large number of new teachers to keep up with rising enrollments. (My state, Georgia, recently created a three-week teacher "boot camp" in part to generate additional teachers to satisfy a state initiative to reduce class sizes; South Carolina recently hired 19 teachers from Spain to help alleviate a teacher shortage.) And, by the way, that teacher licensing does not eliminate the possibility that quality will decrease; just because all teachers are licensed does not mean they are all equally skilled at teaching. (That Massachusetts lowered the passing grade on its teacher licensing exam a few years ago clearly illustrates this point.)

Relationship to Student Performance

Someone once said that an economist is someone who can take something that works and explain why it doesn't. To avert this criticism, I now turn from discussing the effect of class size in the abstract to the relationship between class size and student performance. What do the studies of this issue tell us? Conveniently, a recent paper, "The Evidence on Class Size," by Eric Hanushek of the Hoover Institution, surveys many of them. Hanushek located 277 econometric studies published in books or academic journals. They all controlled for students' family characteristics, an important determinant of student performance. His results are reproduced in the table above. Only 15 percent of the studies found that reducing class size has a statistically significant positive effect on performance. Moreover, almost as many studies (13 percent) found that reducing class size

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has a statistically negative effect on student performance. The remaining 72 percent indicate that reducing class size has no statistically significant effect on performance. And, as indicated in the table, the results were similar in the 136 studies of elementary school class size. Only 13 percent of them found that reducing class size increases student performance, and 20 percent indicate that a reduction harms performance. Thus, in the words of Hanushek, "There is little reason to believe that smaller class sizes systematically yield higher student achievement."

Just as proposals to reduce class size remind us of Hazlitt's famous dictum, so too they remind us of Hayek's warning against the pretense of knowledge. For not only do proposals to reduce class size erroneously assume that teacher quality will remain constant, but the politicians advancing such policies arrogantly presume to possess the knowledge of what is the optimum class size. Since no one is privy to such knowledge, the ideal class size (or sizes) can be determined only in a competitive marketplace in which parents can choose among schools offering classes of different sizes. Hence another rationale for ending the government education monopoly and enacting genuine school choice. □

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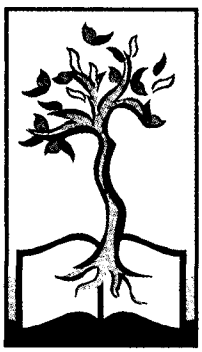

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A Classic Hayekian Hangover

by Roger Garrison and Gene Callahan

Do busts follow investment booms as hangovers follow drinking binges? Dubbing the idea "The Hangover Theory" (*Slate,* December 3, 1998), Paul Krugman has attempted to denigrate the business-cycle theory introduced early last century by Austrian economist Ludwig von Mises and developed most notably by Nobelist F. A. Hayek.

Yet proponents of the Austrian theory have themselves embraced this apt metaphor. And if investment is the intoxicant, then the interest rate is the minimum drinking age. Set the interest rate too low and there is bound to be trouble ahead.

The metaphorical drinking age is set by—and periodically changed by—the Federal Reserve. In our Fed-centric mixed economy, the understanding that "the Fed sets interest rates" has become widely accepted as a simple institutional fact. But unlike an actual drinking age, which has an inherent degree of arbitrariness about it, the interest rate cannot simply be set by some extra-market authority. With market forces in play, it has a life of its own.

The interest rate is a price. It's the price that brings into balance our eagerness to consume now and our willingness to save and invest for the future. The more we save, the lower the market rate. Our increased saving makes more investment possible; the lower rate makes investments more future-oriented. In this way, the market balances current consumption and economic growth.

Price-fixing foils the market. Government-mandated ceilings on apartment rental rates, for instance, create housing shortages, as is well known by anyone who has gone apartment hunting in New York City. Similarly, a legislated interest-rate ceiling would cause a credit shortage: The volume of investment funds demanded would exceed people's actual willingness to save.

But the Fed can do more than simply impose a ceiling on credit markets. Setting the interest rate below where the market would have it is accomplished not by decree but by increasing the money supply, temporarily masking the discrepancy between supply and demand. This papering over the credit shortage hides a problem that would otherwise be obvious, allowing it to fester beneath a binge of investment spending.

An artificially low rate of interest, then, sets the economy off on an unsustainable growth path. During the boom, investment spending is excessively long-term and overly optimistic. Further, high levels of consumer spending draw real resources away from the investment sector, increasing the gap between the resources actually available and the resources needed to see the long-term

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and speculative investments through to completion.

Save more and we get a market process that plays itself out as economic growth. Pump new money through credit markets and we get a market process of a very different kind: It doesn't play itself out; it does itself in. The investment binge is followed by a hangover. This is the Austrian theory in a nutshell. (Ironically, it is the theory that Alan Greenspan presented 40 years ago when he lectured for the Nathaniel Branden Institute.) We believe that there is strong evidence that the United States is now in the hangover phase of a classic Mises-Hayek business cycle.

In recent years money-supply figures (M_1, M_2, etc.) have become clouded by institutional and technological change. But in our view, a tale-telling pattern is traced out by the MZM data reported by the Federal Reserve Bank of St. Louis. ZM standing for "zero maturity," this monetary aggregate is a better indicator of credit conditions than are the more narrowly defined M's.

Credit-Creation Binge

After increasing at a rate of less than 2.5 percent during the first three years of the Clinton administration, MZM increased over the next three years (1996–1998) at an annualized rate of over 10 percent, rising during the last half of 1998 at a binge rate of almost 15 percent.

Sean Corrigan, a principal in Capital Insight, a UK-based financial consultancy, details the consequences of the further expansion that came in "autumn 1998, when the world economy, still racked by the problems of the Asian credit bust over the preceding year, then had to cope with the Russian default and the implosion of the mighty Long-Term Capital Management."

Corrigan goes on: "Over the next eighteen months, the Fed added $55 billion to its portfolio of Treasuries and swelled repos held from $6.5 billion to $22 billion... [T]his translated into a combined money market mutual fund and commercial bank asset increase of $870 billion to the market peak, of $1.2 trillion to the industrial production peak, and of $1.8 trillion to date [August 14, 2001]—twice the level of real GDP added in the same interval" (http://mises.org/fullarticle.asp?control=754).

The party was in full swing. The Fed cut the fed funds rate 100 basis points between June 1998 and January 1999. The rate on 30-year Treasuries dropped from a high of over 7 percent to a low of 5 percent. Stock markets soared. The NASDAQ composite went from just over 1000 to over 5000, rising over 80 percent in 1999 alone. With abundant credit being freely served to Internet start-ups, hordes of corporate managers, who had seemed married to their stodgy blue-chip companies, suddenly were romancing some sexy dot-com that had just joined the party.

Consumer Spending Strong

Meanwhile consumer spending stayed strong—with very low (sometimes negative) savings rates. Growth was not being fueled by real investment, which would require forgoing current consumption to save for the future, but by the monetary printing press.

As so often happens at bacchanalia, when the party entered the wee hours, it became apparent that too many guys had planned on taking the same girl home. There were too few resources available for all of their plans to succeed. The most crucial—and most general—unavailable factor was a continuing flow of investment funds. There also turned out to be shortages of programmers, network engineers, technical managers, and other factors of production. The rising prices of these factors exacerbated the ill effects of the shortage of funds.

The business plans for many of the start-ups involved negative cash flows for the first ten or 15 years while they "built market share." To keep the atmosphere festive, they needed the host to keep filling the punch bowl. But fears of inflation led to Federal Reserve tightening in late 1999, which helped bring MZM growth back into the single digits (8.5 percent for the 1999–2000 period). As the punch bowl emptied, the

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hangover—and the dot-com bloodbath—began. According to research from Webmergers.com, at least 582 Internet companies closed their doors between May 2000 and July 2001. The plunge in share price of many of those still alive has been gut wrenching. The NASDAQ retraced two years of gains in a little over a year.

During the first half of 2001, the Fed demonstrated—with its half-dozen interest-rate cuts and a near-desperate MZM growth of over 23 percent—that you can't recreate euphoria in the midst of a hangover.

It all adds up to the Austrian theory. As a final twist to our story, we note that Krugman, who previously could only mock the Austrians, has recently given us an Austrian account of our macroeconomic ills. In his "Delusions of Prosperity" (*New York Times,* August 14, 2001), Krugman explains how our current difficulties go beyond those of a simple financial panic:

> We are not in the midst of a financial panic, and recovery isn't simply a matter of restoring confidence. Indeed, excessive confidence [fostered by unduly low interest rates maintained by rapid monetary growth?] may be part of the problem. Instead of being the victims of self-fulfilling pessimism, we may be suffering from self-defeating optimism. The driving force behind the current slowdown is a plunge in business investment. It now seems clear that over the last few years businesses spent too much on equipment and software and that they will be cautious about further spending until their excess capacity has been worked off. And the Fed cannot do much to change their minds, since equipment spending [at least when such spending has already proved to be excessive] is not particularly sensitive to interest rates.

With Krugman on the verge of rediscovering the policy-induced self-reversing process that we call the Austrian theory of the business cycle, we confidently claim that current macroeconomic conditions are best described as a classic Hayekian hangover. The Austrian theory, of course, gives us no policy prescription for converting this ongoing hangover into renewed euphoria. But it does provide us with the best guide for avoiding future ones. □

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Patient or Prisoner?

Many people, especially libertarians, view the government as a bottomless source of political mendacity. Psychiatry has, by definition, always been an arm of the government, since it is authorized by the state to deprive individuals of liberty if they are deemed mentally diseased and dangerous to themselves or others. Nevertheless, most people, including many libertarians, have refused to view the pronouncements of these agents of the state as a bottomless source of medical mendacity.

"Police probe attack by prisoners," reads the headline of a story in the *Detroit Free Press*. Subtitle: "Aides hurt in fracas at psychiatric center." The center is identified as the "Hudson Valley Center, a psychiatric hospital for prisoners."

Today, the names of madhouses no longer contain terms such as "insanity," "madness, "mental hospital," or even "hospital." They are "centers"—named after a locality or person, the latter typically honoring the memory of a former madhouse keeper. Thus do psychiatrists destigmatize mental institutions, legitimize themselves as physicians, and even more easily restigmatize mental patients as dangerous quasi-criminals. Politicians and psychiatrists prattle about "parity" between medical illnesses and mental illnesses, but this is the farthest thing from their minds. Parity would mean treating people guilty of crimes as criminals, not patients, and treating people called "(mental) patients" as persons, not criminals.

The Hudson Valley Center is a de facto prison. However, not only is the center not called a prison, the arm of the state that operates it is not called the correctional or prison system. It is called the "Michigan Department of Community Health." Why were the attackers assaulting the personnel administering "community health" to them? "There may have been the intent of trying to escape," explained a spokeswoman. The term "escape" implies imprisonment.

Embarrassing truths and evil deeds have often been concealed by the deceptive use of language. The sign at the entrance of Nazi concentration camps read: "*Arbeit macht frei*" ("Work liberates"). We call psychiatric prisons "centers."

Why do the media, the public, and even many scientists fail to acknowledge the untruths of psychiatry? One reason, illustrated above, is that psychiatrists use medical metaphors as if they named genuine medical diseases, treatments, and institutions. Yet the evidence tells us that psychiatric diseases, patients, and doctors are quite unlike medical diseases, patients, and doctors. Psychiatric doctors listen and talk to patients. Medical doctors examine patients' bodies. Psychiatrists have "criminally insane patients" and incarcerate them in special "hospitals." Cardiologists have no criminally ischemic patients; neurologists have no criminally paralyzed patients; ophthalmolo-

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gists have no criminally astigmatic patients. And that is only the tip of the proverbial iceberg.

Nevertheless, the most eminent psychiatrists maintain that psychiatric diseases are physical diseases. Donald F. Klein, professor of psychiatry at Columbia University, and Paul H. Wender, professor of psychiatry at the University of Utah, state: "Depression and manic-depression are among the most common physical disorders seen in psychiatry." Yet neither depression nor manic-depression is diagnosed by physical examination (or laboratory tests).

Another reason that people fail to appreciate the deceptions and untruths of psychiatry is that psychiatrists fulfill, and are allowed to fulfill, multiple, often mutually contradictory, social functions. Thus psychiatrists pretend to be—and are accepted as—neuroscientists, studying the brain; neurologists, treating patients with brain diseases, with their consent; mental health professionals, treating patients with mental diseases, with or without their consent; public health physicians, protecting society from dangerous mental illnesses and dangerous mental patients; philosophers and judges, deciding who has free will and responsibility for his actions and who has not, who should be punished and who should be "treated"; guardians of incompetent persons, with power to decide every detail of their ward's life; and jailers, managing institutions for the confinement of persons deemed "dangerous to themselves or others."

No other human beings—no physician, no politician, no priest, no lawyer—has this much power over other human beings. Psychiatrists pretend—and society allows them to pretend—that they, they alone, can serve the interests of their adversaries. Prima facie, the interests of involuntary mental patients and psychiatrists conflict. Nevertheless, psychiatrists claim to represent the interests of such "patients." How do they justify this role? By defining their power to coerce as an exercise in "beneficence." A professor of psychiatry at the Medical College of Virginia explains: "Psychiatrists and other mental health professionals are charged by society with a mission to relieve the suffering of mental illness. . . . We have a collective responsibility to prevent harm and to prevent needless suffering and death. This obligation is what ethicists call the duty of beneficence." What psychiatrists call "beneficence" and "collective responsibility," the victims of psychiatric coercions regard as brutality and legally legitimized violence.

Conflicts Are Not Diseases

Psychiatrists deal with people in conflict with other people or with people conflicted within their own souls (often the two go together). Psychiatrists who hospitalize or treat people against their will deal with individuals who are in conflict with them and with whom they are in conflict. This is why psychiatry resembles religion and criminology more than it resembles medicine. And this is why the legitimacy of psychiatry as a medical specialty depends on the denial that psychiatrists deal with conflicts.

The person who becomes a psychiatrist, rather than, say, a neurologist or veterinarian, chooses to be a party to conflicts and must honestly acknowledge where he stands: is he his patient's agent or is he the agent of the patient's adversaries? If the psychiatrist does not acknowledge where he stands, he deserves the fate that Dante believed awaits those who, faced with a conflict between Good and Evil, choose to remain neutral (Canto III, *The Inferno*, by Dante Alighieri). "They are neither in Hell nor out of it. . . . The law of Dante's Hell is the law of symbolic retribution. . . . They took no sides, therefore they are given no place." □

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FEE TODAY

www.feenationalconvention.org January 2002

Special Report from Mark Skousen

Celebrate Great Ideas. Meet Your Favorite Authors.
Change the World and Your Life.
Join us for the first . . .

FEE National Convention
and 30th Anniversary Gala Celebration of Laissez Faire Books

May 3–5, 2002, at Bally's/Paris Resort Hotels in Las Vegas

Attention all friends of liberty!

You and I have something in common. We care deeply about our country and cherish our rights as free citizens. Most Americans may not think about these basic rights, but we do. We eat, sleep, and drink ideas on liberty!

Every month you receive your copy of *Ideas on Liberty* in the mail and you read the articles that interest you. Sometimes these articles change the way you think. And maybe you attend a FEE seminar in New York, or perhaps come to a regional seminar in your hometown. Those of you who have done so know how it has changed your life.

Isn't It Time We Meet?

I got to thinking. Isn't it time for all of us – and I do mean ALL of us – to get together and actually meet face to face? Instead of just reading Thomas Szasz, Sheldon Richman, Walter Williams, Doug Bandow, and your other favorite *Ideas on Liberty* writers, you can actually meet them and hear them speak on their favorite topics. Instead of reading my columns, how about coming and giving me the chance to meet you? Don Taylor, FEE's chairman of the board, has written you a letter about FEE's new plans; now you can talk with him and the other 24 dynamic trustees.

So I say let's meet. Let's have the most exciting get-together ever of liberty-loving individuals from around the country and around the world. We've organized the very first FEE National Convention, to be held at the five-star Bally's/Paris Resort Hotels in Las Vegas, Nevada, May 3–5 (Friday through Sunday noon). We are lining up an impressive list of cosponsors. As we go to press, these include the

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Reason Foundation, Young America's Foundation, Cascade Policy Institute, Nevada Policy Research Institute, State Policy Network, Advocates for Self-Government, *Liberty* magazine, and Walsh College. The theme: "Great Ideas, Great Books, Great Thinkers."

We'll spend three glorious days together socializing, discussing new ideas, listening to great scholars, debating, dancing, listening to music, eating great food, enjoying first-rate entertainment, networking, and having an unforgettable experience.

It could change your life!

What do we have planned? Nothing less than an intellectual feast!

Special One-Day FEE Course on Sound Money and Free Markets

First, on Friday, we will hold a special one-day pre-conference program, the famous FEE Course on Sound Money and Free Markets. This program is offered to students of all ages. Normally, this FEE class is given at our headquarters in Irvington-on-Hudson and lasts a week, but we are distilling it into an intensified one-day course. Top economists will join me in covering the basics of sound money and free-market economics. If you have never attended a FEE seminar, come early and enjoy this unique opportunity to learn how the economy really works, the true role of government, and how to apply economic principles in your business and your personal life.

Kickoff Speaker—Ben Stein!

On Friday evening at 6 o'clock, we will officially start the conference with a cocktail reception and keynote address by Ben Stein, actor, author, and host of the popular TV game show, "Win Ben Stein's Money." You won't want to miss his speech, "Why Hollywood Hates Capitalism." You'll have the rest of the evening on your own to enjoy the "new" Las Vegas. (For those of you who have never been to Vegas, or remember the old Vegas, things have changed dramatically—it is now a first-rate entertainment city, with plenty to do even if you are not a gambler—great entertainment, five-star restaurants, fascinating architecture, a wide variety of top recreational facilities, and even an outstanding art gallery.)

Ben Stein

Breakout Sessions on Philosophy, Economics, History . . . Great Ideas!

Saturday begins an unforgettable learning experience. From 8 a.m. until 5 p.m., we will offer separate breakout sessions with workshops/panels /debates in the following areas: philosophy, economics, finance, history, science & technology, public policy, and potpourri (art, literature, health care, religion, law, and so on). These sessions will be conducted by some of the greatest minds in the world today. In addition to Mark Skousen, Stefan Spath, Sheldon Richman, and other FEE writers, you will learn from:

—Nathaniel Branden, psychologist and author

—Charles Murray, Bradley Fellow, American Enterprise Institute

—Thomas Szasz, author, professor, and famed psychiatrist

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—Robert Poole, Jr., author and founder of *Reason* magazine

—Ken Schoolland, professor at Hawaii Pacific University and author of *The Adventures of Jonathan Gullible* (translated into 25 languages)

—Richard Ebeling, Ludwig von Mises Professor at Hillsdale College

—Norman Barry, professor of social and political theory, University of Buckingham (U.K.) and author of *An Introduction to Modern Political Theory*

—Charles W. Baird, *Ideas on Liberty* columnist and professor

—Gary Hoover, founder of Hoover's, Inc.

—Thomas DiLorenzo, author and professor at Loyola College, Maryland

—Tibor Machan, author and professor at Chapman University

—Dwight Lee, professor at University of Georgia, *Ideas on Liberty* columnist, and author of *Getting Rich in America*

—Harry Veryser, chairman of the economics department at Walsh College

—Johan Norberg, Swedish economist and author of *In Defence of Global Capitalism*

—Dinesh D'Souza, FEE campus spokesman and author of *Illiberal Education* and *The Virtue of Prosperity*

—David Kelley, executive director of the Objectivist Center

—Walter Block, professor at Loyola University, New Orleans, and author of *Defending the Undefendable*

—Over 30 other scholars (to be announced). Check www.feenationalconvention.org for updates.

These sessions will continue on into Sunday morning.

Spend Time with the Top Colleges and Think Tanks in Our Exhibit Hall

We will also have a large exhibit hall, where tables will display the materials and books of the sponsors at the FEE convention. These include national and state think tanks and universities which have joined us in our celebration. In the center of the exhibit hall will be Laissez Faire Books, which will present a wide variety of books for you to enjoy and purchase. Discussion areas will be set up for informal interaction with speakers and other attendees. This is your opportunity to meet the people whose articles you read.

Saturday Banquet & Gala Celebration of Laissez Faire Books

The Saturday banquet is a not-to-be-missed event. It combines our annual Spring dinner and the 30th Anniversary Gala Celebration of Laissez Faire Books. After a sumptuous meal, you will be treated to a "Dance to Liberty" by Valerie Durham and her troupe in the Isadora Duncan dance tradition, followed by our keynote speaker (to be announced shortly).

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The Saturday banquet is also going to be a special tribute to Laissez Faire Books, which is celebrating its 30th anniversary in 2002. FEE acquired Laissez Faire Books last month, thanks to the generosity of Andrea Millen Rich, a FEE trustee who has managed it for the past 20 years. We will take this opportunity to salute Andrea and Howie Rich and thank them for everything they have done for the cause of liberty. (See inside back cover for details on FEE's acquisition of Laissez Faire Books.)

Early-Bird Discount: Only $175

We want everyone to come, so we are offering an early-bird discount: only $175 per person. The price includes the pre-conference FEE course, the cocktail reception and Ben Stein presentation on Friday evening, all the sessions, speeches, and debates on Saturday and Sunday, entrance to the exhibit hall, and even the Saturday night banquet. Note: After April 1, the price goes up to $225 per person. It pays to register early.

High school, college and graduate students are encouraged to attend. (Students needing financial assistance should apply for scholarships—call 1-800-960-4FEE, ext. 209, for details.) We also encourage you to bring your teenage children and grandchildren to this 3-day event, and invite any students you know. This is a "Spring Break" that will really make a difference.

Low Hotel Rates—
Only $117 a Night!

We have also arranged for a special low rate at Bally's/Paris Resort Hotels. You pay only $117 per room (single or double occupancy) for this first-rate, five-star hotel. Low-cost airfares are also available to Las Vegas. To reserve a room, call Intershow at 1-800-970-4355, and be sure to mention that you are going to the FEE National Convention.

Attend the Las Vegas
Money Show Afterwards . . .
at No Extra Charge!

The famous Las Vegas Money Show, sponsored by Kim and Charles Githler, begins right after the FEE National Convention. We've arranged complimentary tickets to anyone who would like to stay after our convention and attend this excellent investment conference (May 5–8). For more information, see their website, www.intershow.com, or call Intershow at 1-800-970-4355.

How to Register for the FEE
National Convention

To sign up for our FEE National Convention, simply fill out and mail in the enclosed form or call us directly at 1-800-960-4FEE, ext. 209. Or e-mail Tami Holland at tholland@fee.org.

Will you do me a big favor? Sit down with your loved ones, discuss this incredible opportunity, and then make up your minds. Do whatever it takes to come. Be a part of history!

Drive there, fly there, bus there, train there, bike there, walk there, be there!

Yours for a New FEE,

Mark Skousen
President

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IDEAS ON LIBERTY
JANUARY 2002

Anti-Trade: A Vortex of Absurdity

by Barry Loberfeld

Among the more intriguing examples of junk e-mail to come in over the electronic transom of late was this parable for our times:

Joe Smith started the day early, having set his alarm clock (MADE IN ARGENTINA) for 6 a.m. While his coffeepot (MADE IN CHINA) was perking, he shaved with his electric razor (MADE IN HONG KONG). He put on a dress shirt (MADE IN SRI LANKA), designer jeans (MADE IN SINGAPORE) and tennis shoes (MADE IN MEXICO).

After cooking his breakfast in his new electric skillet (MADE IN INDIA), he sat down with his calculator (MADE IN SOUTH KOREA) to see how much he could spend today. After setting his watch (MADE IN TAIWAN) to the clock on his VCR (MADE IN MYANAMAR), he got into his car (MADE IN JAPAN) and continued his search for work.

At the end of yet another discouraging and fruitless day, Joe decided to relax for a while. He put on his sandals (MADE IN VENEZUELA), poured himself a glass of wine (MADE IN FRANCE), turned on his TV (MADE IN INDONESIA) and then wondered why he can't find a good paying job . . . in AMERICA!

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Despite the obvious intent of both the author and the sender, my initial reaction was: What a great place America is to be unemployed! As though Joe Smith would really be better off in that sweatshop in Singapore? What *did* give me pause was the identity of the sender—a man I know to be a reader of this magazine. However, I also know that he is an admirer of conservative pundit Patrick Buchanan, author of *The Great Betrayal*, one of the most popular protectionist tracts of the past few years. I guess it's pretty clear on which side of the fence my acquaintance falls.

Since I found the parable so multiply fallacious, I was beginning to worry that I'd have to reply to the gentleman with a small thesis. Then I realized that the format the author used to express his view should be the same I used to express mine. I came up with this:

Joe Smith started the day early, having set his alarm clock (MADE IN ARIZONA) for 6 a.m. While his coffeepot (MADE IN CONNECTICUT) was perking, he shaved with his electric razor (MADE IN HAWAII). He put on a dress shirt (MADE IN NEW YORK), designer jeans (MADE IN NEW JERSEY) and tennis shoes (MADE IN NEW MEXICO).

After cooking his breakfast in his new electric skillet (MADE IN INDIANA), he sat down with his calculator (MADE IN SOUTH CAROLINA) to see how much he could spend today. After setting his watch

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(MADE IN TEXAS) to the clock on his VCR (MADE IN MASSACHUSETTS), he got into his car (MADE IN MICHIGAN) and continued his search for work.

At the end of yet another discouraging and fruitless day, Joe decided to relax for a while. He put on his sandals (MADE IN VERMONT), poured himself a glass of wine (MADE IN CALIFORNIA), turned on his TV (MADE IN ILLINOIS) and then wondered why he can't find a good paying job . . . in ALASKA!

It makes the point, at least to anyone who isn't determined to miss it. However, I didn't e-mail this to the gentleman (not to mention all the other forwarders) for fear that one man's *reductio ad absurdum* might become another man's logical conclusion. Could someone now think that "economic nationalism" is just as bad as globalism and that trade must be forced down even further, to the state—to the *local*—level?

I've recently discovered that that's not an open question. For the Institute for Local Self-Reliance (ILSR) the threat that multinational corporations pose to American "sovereignty" is paralleled by the threat that chain stores pose to "locally owned businesses."[1] "Devolution" of commerce to the "community" level is an end that justifies every means from "local zoning ordinances to federal antitrust policy." Among the specifics are ATM surcharge bans, market-share caps, a financial transactions tax (proposed by Keynes in 1930) on foreign *and* domestic trade, an Internet sales tax, "cultural protection laws" ("to encourage local creation—such as films—that might otherwise disappear in the face of Hollywood's hunger for global markets"), an outright prohibition of corporate ownership and protection for small farmers (for example, an anti-"price discrimination" law, which would disallow a buyer to place a large—that is, a "higher priced"—order with a big producer, since that constitutes "discrimination" against smaller ones).[2] In "Free Trade: The Great Destroyer," David Morris, ILSR's director, reveals the vision inspiring these proposals:

> [We must] now explore the possibilities and strategies for a new kind of world economy, one whose metaphor would be a globe of villages, not a global village. This would be a planetary economy that emphasizes community and self-reliance. . . . It gives us the capacity to survive if cut off from suppliers by natural or man-made intervention. It encourages us to maintain a diversity of skills within our societies and to localize and regionalize productive assets. . . .
>
> The challenge, then, is to move away from the paradigm of the planetary economy and to create in its place an economy that allows us to produce most of what we need from our own local human, natural and capital resources on a sustainable basis.[3]

Community versus Self

But isn't there a conflict between "community and self-reliance"; that is, between the interdependence of a community and the independence of oneself?

I've also recently discovered the answer to that question. As part of a feature on "anarchism," the May-June *Utne Reader* presented an interview with "[s]elf-described neo-Luddite John Zerzan [, an] anarchist writer and researcher." Contrary to any Rothbardian connotations, Mr. Zerzan defines "anarchism" as opposition to "all forms of domination [,which] includes not only such obvious forms as the nation-state . . . [but] the whole van of civilization—armies, religion, law, the state . . . [and even the dawn of] art, and on the heels of that, agriculture."[4] Mr. Zerzan informs us that "life before agriculture and domestication—in which by domesticating others [that is, animals] we domesticated ourselves—was in fact largely one of leisure, intimacy with nature, sensual wisdom, sexual equality, and health." Our fall from grace occurred "because for many millennia there was a kind of slow slippage into division of labor." The interviewer asks the logical question: What's wrong with division of labor? And he responds:

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If your primary goal is mass production, nothing at all. It's central to our way of life. Each person performs as a tiny cog in this machine. If, on the other hand, your goal is relative wholeness, egalitarianism, autonomy, or an intact world, there's quite a lot wrong with it.

I think that at base a person is not complete or free insofar as that person's life and the whole surrounding setup depend on his or her being just some aspect of a process, some fraction of it. A divided life mirrors the basic divisions in society and it all starts there.

Recognizing the implications of this rhetoric, the interviewer asks another logical question: But humans are social animals. Isn't it necessary for us to rely on one another? Division of labor, it seems, only creates "a form of dependence that comes from relying on others who have specialized skills you don't have. They now have power over you. Whether they are 'benevolent' in using it is really beside the point."[5] Mr. Zerzan then translates theory into practice with a statement I really must quote in full:

In addition to direct control by those who have specialized skills, there is a lot of mystification of those skills. Part of the ideology of modern society is that without it, you'd be completely lost, you wouldn't know how to do the simplest thing. Well, humans have been feeding themselves for the past couple of million years, and doing it a lot more successfully and efficiently than we do now. The global food system is insane. It's amazingly inhumane and inefficient. We waste the world with pesticides, herbicides, the effects of fossil fuels to transport and store foods, and so on, and literally millions of people go their entire lives without ever having enough to eat. But few things are simpler than growing or gathering your own food.

The accompanying profile notes his belief that we shouldn't "discount" the desirability of a return to "hunting and gathering" as a way of life.

What began with tariffs on imports, ends with picking berries for food. Mr. Zerzan has pursued this premise down to its nadir. Now division of labor is not a global, national, or even local evil, but an *intrinsic* one. The inequity of the "power" that the capitalist has over the workers by owning the means of production is eclipsed by the inequity of the "power" that Peter has over Paul simply by being able to do something he can't.[6]

Theory and history demonstrate that at one pole of the opposition to free enterprise looms the total domination of society by the state; at the other, the total *obliteration* of society as such. Applied consistently, the policy of anti-trade would transform the entire world into a deserted island on which each of us is stranded all alone. State despotism or social disintegration, *1984* or *Robinson Crusoe*—this is the choice that the critics of capitalism offer as a more just alternative to the freedom and cooperation of the market.

The only way to avoid being drawn into this madness is not to go anywhere near it to begin with. That means responding to the first rumblings of protectionism with a resolute affirmation of the right of all parties to engage in the peaceful exchange of goods and ideas—be it across the street, the border or the ocean. □

1. Stacy Mitchell, *The Home Town Advantage: How to Defend Your Main Street Against Chain Stores and Why It Matters* (Washington, D.C.: Institute for Local Self-Reliance, 2000); see www.ilsr.org.

2. ILSR also publishes *The New Rules* journal in print and on the Web (www.newrules.org).

3. *The Ecologist* (UK), September/October 1990. See also Herman Daly and John Cobb Jr., *For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future* (Boston: Beacon Press, 1994).

4. You can find his primitivist essay "The Case Against Art" on the Web(!) at angelfire.com/mn2/anarchistpoetry/articlesdir/article18.html.

5. Curiously, a photograph shows that he wears glasses.

6. This school of thought was critiqued by Murray Rothbard in "Freedom, Inequality, Primitivism and the Division of Labor" in Kenneth Templeton, ed., *The Politicization of Society* (Indianapolis, Ind.: Liberty Fund, 1978). It appeared originally in *Modern Age,* Summer 1971.

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IDEAS ON LIBERTY
JANUARY 2002

Ivy League Faith in the State

by Tibor R. Machan

Those of us who are convinced beyond a reasonable doubt that the free market is a better forum than its alternatives for making sensible economic decisions face a persistent difficulty. This is well illustrated in the following passage from a prominent author, Robert Gilpin, the Eisenhower Professor of Public and International Affairs (Emeritus) at Princeton University:

> The market oriented position [on international trade] rests on the assumption that investors are rational and will not invest in risky ventures if they know that they will not be bailed out. Therefore, elimination of moral hazards also eliminates the problem of serious international financial crises. Although this conclusion may be correct, no such approach has ever been tried, and there is no empirical evidence to support such a daring policy experiment. Indeed, available evidence leads this writer to conclude that investors are not consistently rational, that they do get caught up in what [is] called "euphorias," and that, when the speculative bubble bursts, many innocent people get hurt.
>
> This causes most governments to be unwilling to risk leaving financial matters entirely "up to the market," indeed, many governments have even installed mechanisms at the domestic level to protect their citizens from financial instability.*

Gilpin makes these remarks after considering Milton Friedman's skepticism about the policies of the International Monetary Fund (IMF), which often places cushions beneath governments as they make risky financial decisions. Friedman suggests that without those cushions the discipline in the international marketplace would be greater and fewer problems would reach crisis proportions.

It is true that an underlying assumption of much economic analysis, including the sort Milton Friedman has produced over the last several decades, is that investors, indeed people in general, are rational. By this is meant that they have enough information needed to reach decisions, and proceed then to do so, concerning what is an efficient, prudent allocation of resources. In short, Friedman and those who agree with him think the marketplace is always a better bet for producing sensible economic outcomes than its government-sponsored alternatives.

There is something, however, in Gilpin's criticism that investors and, we may assume, people in general (whom some investors work for) are not "consistently rational, that

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**Global Political Economy* (Princeton, N.J.: Princeton University Press, 2001), p. 272.

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they get caught up with . . . 'euphorias.'" If this were all that Gilpin meant, his observation would be unexceptionable. Now and then, it is true, people in governments might reach better economic decisions than those in the marketplace.

However, Gilpin goes on, in a way sadly typical of most defenders of statism in economic affairs, to bestow on governments qualities there is no reason to assume they possess. As he puts it, "This [the fact that investors aren't consistently rational] causes most governments to be unwilling to risk leaving financial matters entirely 'up to the market,' indeed, many governments have even installed mechanisms at the domestic level to protect their citizens from financial instability." Clearly Gilpin is treating governments as if they had some magical way of escaping the occasional irrationality that investors are capable of. Or to put it differently, while investors are not consistently rational, Gilpin seems to accept rather blithely that governments are.

Notice, also, what kind of presumptuousness, indeed, arrogance, this leads to in Gilpin's own discussion: He tells us that because of investors' lack of consistent rationality, governments are unwilling to risk "leaving financial matters entirely 'up to the market.'" In other words, people in government, who are every bit as susceptible as other people to "euphorias" and other kinds of irrationality—and, if public choice theory has taught us anything, are *more* susceptible to certain types by far—take it on themselves to assume the role of coercive nannies.

Market Equals Non-Interference

To put it plainly, "leaving things up to the market" means not interfering with what people do with their own resources. Encouraging international financial policies in line with this approach means not setting up, as the IMF and World Bank do routinely, various means by which it is possible for governments to escape the consequences of irresponsible economic decisions.

Putting this all in somewhat different terms, Gilpin supports the common government policy of substituting for the risk of occasional economic failures the near-certainty of repeated political failures. For one thing, bureaucrats do not face, as investors do, the discipline of possible bankruptcy. If they blunder in matters of public finance, there is always the good old taxpayer who can be forced to mend the problem. And there is no danger of being sued since government agents enjoy sovereign immunity, which prevents holding accountable those who are merely carrying out the "public will."

Investors do not have these options, so it is less likely that they will behave irrationally. All in all, if there is to be a choice between whom to trust more in economic matters—those operating in the marketplace or those regimenting market agents—trusting the former is far more rational, even if not a guarantee against all problems.

It is interesting, by the way, that Gilpin admits that the free-market approach has not been tried, yet does not bother to ask why that is so. Trying it would require governments to relinquish a great deal of power, and they are unlikely to do that. No wonder the market has not been tried in full. If the slaves had depended on their masters to give freedom for all a try, very few slaves would have been freed, and we'd report that few masters embarked on "such a daring policy experiment."

It is sad, indeed, that folks like Professor Gilpin are deemed the best and brightest among the academics who address these matters. Until those who champion liberty over regimentation by meddlesome governments get wider and more prestigious forums for their views, Gilpin & Co. will be calling the tunes and liberty will be fighting an uphill battle. □

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IDEAS ON LIBERTY
JANUARY 2002

The Price System as Can Opener

by D.W. MacKenzie

Both the subject matter and the choice between paradigms in economics contain interesting and perplexing problems. A key problem that we face in society, as F.A. Hayek pointed out as far back as 1945, is in making use of widely dispersed knowledge regarding available means in satisfying human wants. The key problem that we face as economists is in grasping the significance of economic problems such as I just mentioned. The interwar debate over socialism, begun by Ludwig von Mises in the 1920s and extended by Hayek in the 1930s, is perhaps the single best illustration of the importance of this problem in economics.

This debate centered attention both on the exact nature of the market system and on the particular understanding of this process by the two opposing sides. The critics of socialism thought of markets as an evolutionary and rivalrous process in which we continually learn about opportunities for trade in our complex world. The proponents of socialism thought of markets as an end state in a static world where we allocate resources to their most highly valued uses. The latter of these two visions enjoys popularity in the mainstream of the economics profession today. The former attracts more attention from other academics and laymen than from economists. Given the course of events in eastern Europe, this situation seems a little odd. Since the evolutionary/rivalrous paradigm pointed in the right direction in the real world, why does it not enjoy greater popularity in the professional economists' world of ideas?

An easy way to understand this issue is to think of it in terms of this not-too-old joke:

> An economist, a physicist, and a psychic find a can of food while they are stranded on a desert island. The physicist says that they should use their eyeglasses to focus the sun on the can to burn a hole in it. The psychic argues that they should focus their mental energy on the can to pry it open. The economist shakes his head and says, "Why don't we just assume that we have a can opener?"

This is no mere joke; it strikes at the heart of modern economics. Many modern economists use assumptions much in the same way that speeding motorists use excuses after they get pulled over. Just as no excuse is too absurd for a motorist when trying to avoid a ticket, no assumption is too absurd for a socialist when trying to avoid certain conclusions about government and the market. The interwar debate illustrates the reality of this analogy in an interesting way.

Mises argued that socialism must fail in trying to satisfy consumer wants because it lacks means of economic calculation. Money

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provides a method by which individuals can calculate monetary profits. Profits and losses, in turn, work to motivate and regulate individuals as well as to inform them. Mises contended that without money as a guide to the calculation of profit, economic planners would be lost among a bewildering array of possibilities for producing goods that satisfy human wants.

Oskar Lange responded to Mises's argument by insisting that central planners could use mathematical models of the market to simulate the results of markets in an "ideal" (that is, static) situation. Lange proposed using a system of equations created by Léon Walras for this purpose. With each equation representing a market, he insisted that central planners could calculate a set of prices that would lead to ideal resource allocation.

Hayek argued against the use of such models on the grounds that there was no possible way for central planners to know all they would need to know to solve the problem at hand. This was the crux of the debate. Each side saw the economic problem in a different way.

Through the Glass Walls

To Hayek and Mises the economic problem was one of trying to make sense out of a complex and ever-changing world. To Lange and Fred M. Taylor the economic problem was one of trying to calculate optimal values for the use of a given amount of well-known resources. Lange responded to Hayek's challenge by arguing that central planners would see through the glass walls of socialism. This notion is both terrifying and absurd. It is terrifying because it implies a near-total lack of privacy. It is absurd because it takes for granted an ability to collect knowledge, in a usable form, that defies imagination. The absurdity of Lange's argument points to the central issue of the debate—the issue of how we should conceive the problem we face. Should we accept the unreal assumptions of neoclassical economics or should we embrace the Austrian paradigm as we struggle with these issues?

Ludwig von Mises

Neither Mises and Hayek nor Lange and Taylor ever changed their views on the nature of the problem. Hayek and Mises held on to their paradigm, where time, uncertainty, and learning loom large as serious problems. Lange and Taylor pretended that these problems were inconsequential.

In other words, Hayek and Mises looked at the can in our joke and said, "We need a can opener." Lange and Taylor looked at the same can and said, "Let's assume we can open it and start planning how to use what's inside."

This story might seem strange enough as it is, but as it happens, there is another economist whose ability to ignore reality exceeded that of even Lange and Taylor. While the debate over socialism raged, Wassily Leontief set out to construct a model that social planners could use in practice.

The result of those efforts was his Nobel Prize-winning input-output model. In this model the ratios of inputs to outputs tells the planners how much of various inputs are needed to generate a given output. The interesting thing about Leontief's model is that it assumes that all inputs are perfect comple-

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ments. The reason for this points precisely at the problem Mises was getting at in his critique of socialism. Mises argued that without money prices for capital goods we would be lost in a bewildering array of possibilities for production, *given that inputs are substitutes for each other*. If all inputs to the productive process are perfect complements to one another, then choice between combinations of different inputs is needless. This approach to planning goes beyond the usual absurdities about a static world of perfect information where planners peer through "the glass walls of socialism" as they calculate their optimal price vectors. In this view, there are few choices for planners to make. If we know what people want and what the best available technologies and productive procedures are, and if inputs combine in fixed proportions, what is there left to choose about? Given all this, we do not need to solve the problem of economic calculation, for under these conditions the problem does not exist.

Rather than assuming that we have a can opener, Leontief simply assumed that the can in our joke was already open. Leontief dreamt of a world where planners would maximize consumer welfare by using his model to arrange production rationally. How it is that he came to believe that this dream could ever become a reality is truly baffling.

Discovery Procedure

The price system is the can opener that we use to gain access to all the secrets that await us in our complex and ever-changing world. The competitive discovery procedure that is the market process enables us to learn about opportunities for satisfying our desires. The challenge to those academics who still believe in socialism is in finding a means by which they can penetrate the aluminum walls of dispersed knowledge without the aid of the market process.

The problem that we face at this time is twofold. As a practical matter, we need to address the deprivations that exist in the parts of the world that continue to labor under socialism. North Koreans have suffered from starvation in their workers' paradise. Charitable organizations typically address these kinds of problems by sending actual cans of food when all that is really needed is our figurative can opener. The solution to this problem lies, in part, with the other problem that I mentioned at the beginning. The public at large needs to be made more aware of the importance of markets and the price system. This requires instruction in economics by individuals who understand how markets actually work. Academic economists are the ones whose job it is to instruct others in these matters. What is therefore needed is a paradigm shift in the economics profession, one that moves away from the static general-equilibrium theorizing of Walras, Lange, and Leontief in favor of the evolutionary approach of Mises and Hayek. □

F.A. Hayek

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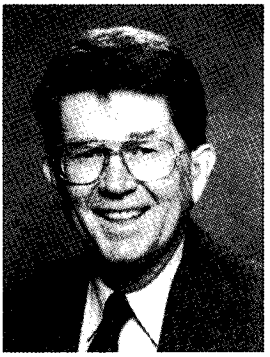
Economics



The Market Makes Diversity Worth Celebrating

The mantra on university campuses today is "celebrating diversity." There are good reasons to encourage a greater appreciation of the rich diversity in the world. We are increasingly part of a global community; it's important that we interact cooperatively with people of diverse backgrounds, understandings, skills, and motivations. But we should keep in mind that emphasizing our differences carries at least as much potential for conflict as for cooperation. Every day, in multicultural hot spots around the world, people celebrate their differences with bloody barrages of high-octane fireworks.

Also, much of what is promoted under the banner of diversity on campuses today ignores, and often disparages, the most effective force for fostering multicultural harmony—the market economy.

Market economies, based on private property and voluntary exchange, are now acknowledged to excel in the production of wealth. What people often fail to recognize is that market economies are so productive because they allow us to make the best use of the differences between people and countries. People are rewarded in market economies for seeking out those who are different and taking advantage of those differences through specialization and exchange.

The best way to celebrate diversity on campuses is by promoting a better understanding of the free-market economy that makes diversity worth celebrating. But you will look in vain for a multicultural course that emphasizes our ability to cooperate across cultural divides through market activity. Instead, the most vocal advocates of cultural diversity on campuses see the political arena, not the marketplace, as the best setting for bringing people together. Unfortunately, politicizing our differences is far more likely to make diversity a source of conflict than a cause of celebration.

If people and countries were all the same, the world would be a very impoverished place—impoverished and boring. If everyone had the same skills, attitudes, cultural norms, interests, and backgrounds, and if all countries had the same resource endowments, weather conditions, and cultural heritages, the opportunities to gain from specialization and exchange would be far less than they are. Individuals, and the countries they live in, would end up having to produce more themselves of what they consumed, being jacks of all trades and masters of none. With less specialization, and less of the increased productivity that comes from it, we would all be poorer. And quite apart from the reduction in wealth, the world would be a less interesting and exciting place. People would have less to contribute to, and learn from, one another, and the opportunity for personal growth from travel and social interaction would be diminished. The world is a more wondrous place in every way because of its diversity.

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But to take advantage of the specialization that diversity makes possible we must be able to share information with countless other people on what we can best do for them and they can best do for us, and respond to this information as if we were as concerned with the welfare of others as we are with our own. This sharing of information and cooperative response is possible only through market prices. The market is a multicultural collage of global cooperation that not only allows people from all over the world to serve the interests of one another, but also motivates them to do so. Free-market capitalism penalizes parochialism and cultural isolation and rewards those who expand their markets by accommodating a wide variety of culturally influenced interests and tastes.

Scarcity and Conflict

I don't want to leave the impression that markets completely eliminate conflict and replace it with the harmony of all joining hands and singing "We are the world." We live in a world of scarce resources, and the greater the diversity the greater the variance in views on how those resources should be used. True, in markets the best way for you to get more things you want is by helping others get more things they want; conflict is diminished by allowing everyone to become better off. Thus market exchanges harmonize diverse preferences to a degree rarely possible in the political arena.

When people pursue their objectives through the political process, they usually achieve success by convincing authorities to take resources away from others. No more is produced—what one person gains, others lose. Worse, people devote resources to lobbying politicians that could have been producing more of what people want, so the winners gain less from political action than the losers lose.

This explains why political decisions are often controversial, with opposing sides pitted against each other. Each side finds it is more successful mobilizing public opinion and support for political action by presenting its case as a crusade for virtue, which makes it is easy for members of opposing sides to see each other as enemies. When one side loses, its tendency is to see the loss as a personal rebuke and a triumph of evil by those on the other side.

In contrast, conflicts over scarce resources in the marketplace are generally impersonal. The market is often criticized for being impersonal, but that is actually one of its advantages. When you end up with less of something than you had planned on because the price goes up, it is not the result of anyone's intentionally taking something from you. The price increase is the effect of countless people responding to a wide variety of considerations, with it doubtful that any of them are giving you any thought at all. Because price changes are impersonal, people are far less likely to respond with animosity when they end up with less than if they knew that their loss was the intended result of political action that permitted others to gain at their expense.

People in Texas use less gasoline than otherwise because the gasoline usage of New Yorkers drives up the price they pay. But few Texans feel animosity toward New Yorkers when filling up with gas. But imagine if gas were allocated politically, and the Gas Allocation Commissar told Texans that they had to reduce their gasoline use so New Yorkers could increase theirs. This would surely increase the sensitivity of Texans to the differences between them and New Yorkers, but it would be the sensitivity of a raw nerve.

In general, the more diversity in a community, the more socially divisive political decisions will be. Fortunately, most decisions can be made individually in the marketplace since they involve choices that people can make largely independently of one another. The less we rely on government the more we can tolerate diversity, indeed thrive from it. If only this were understood by those who see more collectivism as the best way to promote (and celebrate) diversity. □

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IDEAS ON LIBERTY
JANUARY 2002

Tall Grass, Parked Cars, and Other So-Called Offenses

by Scott McPherson

"The system of private property is the most important guaranty of freedom."
—F.A. HAYEK, *The Road to Serfdom*

Proponents of overactive government never challenge the principle that government exists to protect individual rights. Rather, they have simply expanded the definition of rights to include anything they want the government to do for them. In recent times, such thinking has brought into existence abusive legislation like the Americans With Disabilities Act, calls for universal health care, and the "living wage" movement. Today, it is the alleged "right" to something only vaguely defined as "community standards" that has prompted city governments into campaigns against code violations.

Whoever said local government is best because it is "closest to the people"—and therefore more responsive to their will—must have invented the concept of city codes; because nothing better represents the capricious, arbitrary, and dominating nature of majority power than local ordinances passed to give one group of people the ability to harass their neighbors into conforming to a specific esthetic standard. Protecting us from such evils as "J-parking" (parking faced in the wrong direction), tall grass, and (for shame) even people parking their own cars on their own lawns, city government is not the local guardian, but the local bully.

Typically, however, city ordinances meet with much favor; few people ever challenge them, and fewer complain that they are in any way unfair. This is simply because most people today share the collectivist mindset that motivated these laws in the first place. The idea behind local codes—or zoning laws, or anything that obstructs an individual from peacefully using his property as he sees fit—is that rights like property are somehow a shared phenomenon to be managed by the "community" for the "greater good." This means, in essence, that if you allow your grass to grow too long, or commit some other sin, you are inadvertently "violating" the "right" of nearby residents to live in an area that meets with their subjective approval. But like so many other invented rights, using local government to enforce a "right" to a tidy neighborhood is a perversion of the very idea of rights.

Rights Are for Individuals

Rights belong to individuals, not groups or "society"; it is only individuals who can

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logically have rights. In a free society it is the job of government to make sure that no one violates the rights of another individual through force or fraud. For someone's rights to be transgressed, some person or group must physically (or coercively) interfere with both his enjoyment *and* his use of his own property. Though this may come as a bit of a surprise to local supporters of micromanaging government, it is they, not an incorrigible homeowner with a mattress on his lawn, who meet this damning criterion.

This isn't to say that people should be able to do whatever they wish with their homes and property—only that they should be left alone as long as their actions do not violate anyone else's rights. If someone is concerned that his neighbor's excessively tall grass is becoming a haven for disease-infested rodents, for example, then the job of local government is to provide a forum (preferably a courtroom) where such concerns can be addressed. But the onus is on the complainant to prove not only the existence of a menace, but also that the menace is directly affecting the use and enjoyment of his property. Of course, such a standard would relegate all but the most extreme cases to the dustbin—and that is precisely why little government busybodies wouldn't stand for it. Still, there is no reason why those of us who know better shouldn't remind them of what it is we pay them to do.

It is sad when government becomes the vehicle by which the latest group in power pushes its views of order on the rest of us. When it becomes morally acceptable to use the policeman's gun (or the threat of it) to tell your neighbor he can't park his car on his lawn, or hang a screen door without a permit (no kidding—until last March, there was such a law in Adamsville, Alabama), then we have lost all sense of good government. It will only be a matter of time before certain colors are forbidden when painting your house (see Bath, England).

A typical argument in favor of such regulation is that "none of us lives in a vacuum"—what we do affects those around us. Indeed it does. Does this mean that the majority should set house prices as well, so that my neighbor's "right" to a "fair price" for his home is not violated by my asking less for mine?

We live in a highly complex society, where specialization and division of labor have produced a standard of living unparalleled in the history of the world. The wealth we enjoy today is due to the constant interaction of millions of different people pursuing vastly different goals in an inestimable number of ways. To suggest that we can reap the benefits of such a society while employing force to eradicate any suspected risks is naïve and utopian. Let's grow up. □

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IDEAS ON LIBERTY
JANUARY 2002

The Obstacle Course of the Takings Clause

by Timothy Sandefur

The Fifth Amendment holds that government may not take "private property . . . for public use without just compensation." The Framers knew that seizing a person's property always violates his rights, but providing for government payment would at least protect citizens from the worst sorts of abuses. To the uninitiated, therefore, it might seem that the Fifth Amendment protects Americans' liberty. But the reality is a bit darker. The power of eminent domain has been expanded far beyond its original meaning, and is now hedged with so many procedural pitfalls, that the Takings Clause is now mentioned far more often in the breach than the observance.

The most infamous Supreme Court takings decision is probably *Hawaii Housing v. Midkiff*, a 1984 case in which the Court essentially eradicated one of the two constitutional limitations on eminent domain. Originally, that power could only be exercised to take property "for public use"—to build bridges or make roads; things the public at large uses. It was not intended to let government transfer property from one private party to another whenever it becomes politically expedient. In the 1798 case of *Calder v. Bull*, the Supreme Court held that "a law that takes *property* from A. and gives it to B" is "against all reason and justice" because "[t]he *genius*, the *nature*, and the *spirit*, of our State Governments, amount to a prohibition of *such acts of legislation*; and *the general principles of law and reason* forbid them."

More emphatic was a 1795 case, *Vanhorne's Lessee v. Dorrance*, in which Circuit Justice Patterson wrote that

> The despotic power, as it is aptly called by some writers, of taking private property, when state necessity requires, exists in every government. . . . The presumption is, that [government] will not call it into exercise except in urgent cases, or cases of the first necessity. . . . It is, however, difficult to form a case, in which the necessity of a state can be of such a nature, as to authorise or excuse the seizing of landed property belonging to one citizen, and giving it to another citizen. It is immaterial to the state, in which of its citizens the land is vested; but it is of primary importance, that, when vested, it should be secured, and the proprietor protected in the enjoyment of it. . . . Where is the security, where the inviolability of property, if the legislature, by a private act, affecting particular persons only, can take land from one citizen, who acquired it legally, and vest it in another?. . . It is infinitely wiser and safer to risk some possible mischiefs, than to vest in the legislature so unnecessary, dangerous, and enormous a power.

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In *Midkiff,* the legislature of Hawaii decided that property was owned by too few people, and it passed a law essentially turning all property leases into options to buy at depreciated rates. The landowners sued, saying that this was an unconstitutional transfer of property for *private* use. The Supreme Court upheld the law, holding that "the 'public use' requirement is . . . coterminous with the scope of a sovereign's police powers." In other words, anything government can legitimately do, it can seize property to do.

Since 1937 the Supreme Court has taken an almost "anything goes" approach to government regulation of the economy.[1] Therefore, if the government can do nearly anything to regulate the economy, it can take nearly any property to do so. This view is most notoriously symbolized in a case announced some years before *Midkiff,* called *Poletown Neighborhood Council v. Detroit* (1981). The city of Detroit seized an entire neighborhood and gave it to General Motors, arguing that this would improve the economy and "create jobs." Since improving the economy falls within the state's police power, the Michigan Supreme Court held that this was constitutional. Since then, the "public use" requirement has been reduced to a practical nullity, as courts have permitted legislatures to seize property for shopping malls, sports arenas, and any number of undeniably private uses.

Much more insidious in eminent-domain law are the number of procedural mechanisms by which government avoids compensating property owners. Consider, for instance, the "*Williamson County* trap." According to *Williamson County Regional Planning Comm'n v. Hamilton Bank* (1985), takings cases against states must first be brought in the courts of that state before they're brought in federal court. At first this seems reasonable, but once a property owner loses in state court, a federal court will employ the doctrine of absention, meaning that federal courts will not change state court decisions. By the time a property owner gets into federal court, it's too late.

"Ripeness" Requirement

A similar trap is the so-called "ripeness" requirement. Notorious in takings law, ripeness is a legal doctrine that requires a property owner to have a "final administrative determination" on how a law affects a piece of property—for instance, the owner must be explicitly denied a building permit. Until then the owner may not sue—and this provides an incentive for administrative agencies to delay, sometimes for decades, before deciding whether a property owner may use his land. The ripeness requirement can easily become a black hole from which a lawsuit never emerges. In fact, some courts have gone so far as to require a property owner to submit a second permit request, and a third—because although the first permit was denied, it's "possible" that the administrative agency would grant a less ambitious permit. Thus courts play an owner like a yo-yo and never give him his day in court.

There are problems with the ways courts decide takings claims as well. Government takes property in essentially two ways: first, it can actually occupy the land. In these cases, government must always pay the landowner.[2] The other way is by passing a law prohibiting the landowner from using his property as he wants—thus making the property worthless without actually taking it. These "regulatory takings" cases are more complex. Although the Court has held that regulations depriving an owner of *all* value must be paid for,[3] it's often hard to say when a regulation really does that. All the Court has been able to say is that "if a regulation goes too far it will be recognized as a taking."[4] But what is "too far"? To decide this, the Court weighs a number of "factors," known as the *Penn Central* test. These factors include the "the economic impact of the regulation," the "extent to which the regulation has interfered with distinct investment-backed expectations," and "the character of the governmental action."[5]

In reality, the *Penn Central* test is meaningless, as even the Court acknowledges. (The Court admitted in that case that it engages in "essentially ad hoc, factual

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inquiries.") And the *Penn Central* test has proven not only a false hope to property owners, but a convenient mechanism by which government avoids paying just compensation. Consider *Suitum v. Tahoe Regional Planning Agency* (1997), in which a regulation prohibited a property owner from developing her land. The law gave the property owner TDRs ("transferable development rights"—credits that waive some zoning restrictions), which the owner could sell to neighbors. The case was decided on purely procedural grounds, but the Court did suggest that the TDRs could be taken into account—not when determining whether the owner had been granted just compensation—but instead when considering "the economic impact of the regulation" under the *Penn Central* test. Justice Scalia, in a separate opinion, decried this scheme:

> Whereas once there is a taking, the Constitution requires just (*i.e.*, full) compensation . . . a regulatory taking generally does not occur so long as the land retains substantial (albeit not its full) value. . . . If money that the government-regulator gives to the landowner can be counted on the question of whether there is a taking . . . rather than on the question of whether the compensation for the taking is adequate, the government can get away with paying much less. That is all that is going on here.

An even nastier procedural trap, until recently, was the so-called "notice rule." If a property owner purchased land knowing that a regulation existed prohibiting development, he could not later sue to have that regulation thrown out—after all, he was "on notice" when he purchased the land. But a closer examination reveals that the "notice rule" served as a "one-way ratchet" to gradually eliminate *all* land-use rights. If a landowner did not challenge a regulation immediately, no subsequent purchaser (or heir) could do so, *no matter how unconstitutional* the law.

Law professor Richard Epstein uses an analogy to make the unfairness clear: "[T]he plaintiff who stands on his own front steps may be on notice of the dangers created by motorists using the public highway. He has a set of choices which would enable him to avoid the risk at some cost if he so chose. Yet this does not establish assumption of risk. The central point is that the individual plaintiff has *both* the right to use his own land and the right to his own physical integrity."[6] Courts would never hold that a pedestrian's "notice" of traffic would bar a lawsuit against a driver who jumps the curb and runs him down; but those same courts held that a person buying property aware of *unconstitutional* regulations could not sue to get those regulations thrown out.[7]

The asserted justification for the "notice rule" was that it was needed to prevent "speculators" from purchasing regulated property at low prices, then suing to get the regulations withdrawn and realizing "windfall" profits. Considering the extreme amount of time and money that regulatory takings cases consume, it's highly unlikely that any speculators actually did this. But even assuming that some did, it's hard to see what was wrong with it.

Many civil-rights statutes provide for awarding attorney's fees; this creates an incentive for private parties to sue for discrimination, essentially making citizens into freelance enforcers of the law. But the same people who support such mechanisms are horrified by the possibility that similar incentives could protect property owners from unconstitutional land-use regulations. In any case, land regulations accrue a benefit to "the public" only by depriving the landowner of his rights. If he managed to get the regulation thrown out, he recovered nothing more than what was taken from him to begin with.

The notice rule went to even worse extremes. In some cases, courts held that property owners could not recover if they purchased property while aware of a regulatory "atmosphere" or of a likelihood that a land-use regulation would *eventually* be passed. In other words, the notice rule required that property owners foresaw future unconstitutional acts.

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The rule essentially eliminated the Takings Clause. As Epstein says, "If notice of possible government action is sufficient to deny compensation for a partial taking of private property, say, development rights, then it is sufficient to deny it for a complete taking of property. All that is necessary is that purchasers be aware that the government may act to take over their land in entirety."[8] In fact, some courts went almost that far.[9]

Rule Ended . . . Maybe

Fortunately, last June the United States Supreme Court ended the "notice rule." In *Palazzolo v. Rhode Island* (2001), a 5-4 Court held that the rule attempted "to put an expiration date on the Takings Clause. This ought not to be the rule. Future generations, too, have a right to challenge unreasonable limitations on the use and value of land." Justice Anthony Kennedy, writing for the majority, was particularly explicit in explaining the notice rule's flaws:

> The theory underlying the argument that post-enactment purchasers cannot challenge a regulation under the Takings Clause seems to run on these lines: Property rights are created by the State. . . . So, the argument goes, by prospective legislation the State can shape and define property rights and reasonable investment-backed expectations, and subsequent owners cannot claim any injury from lost value. After all, they purchased or took title with notice of the limitation. The State may not put so potent a Hobbesian stick into the Lockean bundle.

While property owners can breathe a little easier now, it may be too early to celebrate the death of the "notice rule." Federal circuit courts have repeatedly attempted to circumvent Supreme Court decisions that don't comport with the overwhelmingly anti-property leanings of the legal elite. And they may have an opportunity to do so thanks to Justice Sandra Day O'Connor's concurring opinion. Characteristically, O'Connor attempted to divert the actual holding of the case. (Because only the "narrowest holding" of a Supreme Court decision is considered to be binding precedent, if a Justice concurs with an opinion on different grounds than the majority, *that* opinion, and not the opinion of the court, can sometimes be the more important ruling. Justice O'Connor has done this in a number of cases, particularly cases involving the Establishment Clause.)

In *Palazzolo* she wrote that "Today's holding does not mean that the timing of the regulation's enactment relative to the acquisition of title is immaterial. . . . [I]nterference with investment-backed expectations is one of a number of factors that a court must examine. Further, the regulatory regime in place at the time the claimant acquires the property at issue helps to shape the reasonableness of those expectations." In other words, the notice a buyer had is not decisive, but should still be considered. The problem is, if a court does consider this factor, it will inevitably become the dominant factor—as it has all along. If a land-use regulation cannot become *more* constitutional merely by passage of time—if states may not "put an expiration date on the Takings Clause"—then it is *not* proper to consider the timing of that regulation at all.

But it is likely that circuit courts, and state courts, reluctant to allow plaintiffs to recover just compensation, will use Justice O'Connor's opinion to escape the compensation requirement. One catches a hint of this already in Justice Stephen Breyer's dissent:

> [M]uch depends upon whether, or how, the timing and circumstances of a change of ownership affect whatever reasonable investment-backed expectations might otherwise exist. Ordinarily, such expectations will diminish in force and significance—rapidly and dramatically—as property continues to change hands over time. I believe that such factors can adequately be taken into account within the *Penn Central* framework. . . . [Some] have warned that to allow complete regulatory takings claims . . . to survive changes in land ownership could allow property owners to manufacture such claims by

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> strategically transferring property until only a nonusable portion remains. . . . But I do not see how a constitutional provision concerned with "fairness and justice" . . . could reward any such strategic behavior.

One can see where this is leading: if the timing of a regulation is considered in evaluating a takings claim's "fairness," then the amount of protection the Fifth Amendment provides to property owners will indeed diminish rapidly and dramatically whenever courts are still dominated by proponents of government regulation.

In fact, in an opinion issued on November 5, 2001, the Federal Circuit Court of Appeals did precisely this. In *Rith Energy v. United States*, the court rejected a coal mining firm's argument that under Palazzolo, "the mere fact that an owner bought after a regulatory scheme was passed cannot defeat a partial takings claim." Relying on Justice O'Connor's opinion, the court held that the coal company should have "expect[ed] the regulatory regime to impose some restraints on its right to mine coal under a coal lease," and therefore it could not have been disappointed in its "reasonable investment-backed expectations." Yet this is precisely the same rule rejected in Palazzolo: that just because a property owner is "on notice" that the government may act, or may have acted, unconstitutionally, should not prevent him from demanding just compensation. If there should not be an "expiration date on the Takings Clause," there should also not be a "five-minute warning" limit on the Takings Clause, either.

Property rights are indeed in jeopardy. Rehabilitating the Takings Clause would be a first step toward making property safe again. □

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1. This approach is known in the law as "rational relationship scrutiny," meaning that a law is constitutional if the legislature could possibly have thought the law was related in any way to any legitimate government interest. The test originated in cases like *United States v. Carolene Products Co.* (1938). Needless to say, hardly any law ever fails this test.
2. *Loretto v. Teleprompter Manhattan CATV Corp.* (1982).
3. *Lucas v. South Carolina Coastal Council* (1992).
4. *Pennsylvania Coal Co. v. Mahon* (1922).
5. *Penn Central Transp. Co. v. New York City* (1978).
6. Richard Epstein, *Takings: Private Property and the Power of Eminent Domain* (Cambridge, Mass.: Harvard University Press 1985), pp. 153–54.
7. *Gazza v. New York State Dep't of Envtl. Conservation* (1997).
8. Epstein, p. 155.
9. See the New York case *Kim v. City of New York* (1997).

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CAPITAL LETTERS

Illusion of Collective Relevance?

To the Editor:

I read with interest Christopher Mayer's article "Illusion of Control" (September 2001), in which he attempted to criticize the notion of economic forecasting. While few would dispute the claim that complex forecasts are not simple, Mayer used seemingly irrelevant statistics to make his case, and in doing so rendered his conclusion suspect. Mayer cites a study in which 94,251 consensus forecasts (each a consensus of several analyst predictions "resulting in over 500,000 individual predictions") were examined for the "average error rate." From the average error rate, which Mayer sees as less than impressive, we apparently are to believe that reasonably accurate economic forecasts by individuals are not likely, if possible at all. Using the average error rate of the forecasters as basis, Mayer asks, "How likely is it that [Fed chairman Alan] Greenspan has any clue where the economy is 'headed'?"

Like the fatal flaw in the arguments of those who use average group performance to show that anticipating likely future market action (market timing) is not possible, the flaw in Mayer's argument leaves his conclusion unsupported. Average performance of a group is not an indication of whether something is possible. The more relevant information would be whether any individual performance has been consistently accurate. If even one has been reasonably consistent in its accuracy, it shows that such a prediction is indeed possible, even if the majority have not figured out how to do it yet. While not an expert on statistics, I think it is reasonable to assume that the error rates of the 500,000 individual forecasters varied, and were likely distributed along a normal distribution curve, or bell curve.

Therefore, one might assume that of those 500,000 individual forecasters (or 94,251 consensus forecasts) there must be some percentage posting a truly stellar performance, offsetting those on the other end of the curve who showed little accuracy. If even the top 2 percent of forecasters were highly accurate, that would amount to some 10,000 forecasters who did a great job (or 1,885 consensus forecasts). Consider the possibility that if Greenspan were among those 500,000 forecasters in the study, he might fall into that upper 2 percent.

Greenspan is an individual, not a collective. And while he may or may not be clueless as Mayer implies, the collective performance of 500,000 good and bad soothsayers does not support Mayer's suggestion regarding Greenspan, the individual, one way or the other.

—Randy Oliver
Atlanta, Georgia

Christopher Mayer replies:

Mr. Oliver makes some good points, of course. Allow me to respond to some of them.

My main intent was to show that these analysts had collectively had a very poor record of predicting something that would happen only two weeks after their predictions were made. I believe that forecasting the quarterly earnings for a company, when you have access to senior management and a very specific task before you, is much easier than getting a handle on something as large and complex as the U.S. economy.

I simply found the study rather surprising. I believe it was relevant, to the extent that my article dealt with trying to describe or deal with the difficulty (impossibility, really) of predicting the future.

Moreover, Mr. Oliver's point about using averages, thereby masking superior individual performances, is a good one, but flawed as well. Even if we were to find several analysts who "called it right," it would be difficult to say that they were outstanding forecasters. What they did could simply be the result of chance. If we began with a pool of 1,000 analysts, for example, it would be expected, due to randomness, that some group would compile a strong record of prediction. If we had 1,000 analysts flipping coins, with only those flipping heads advancing, one would expect after five tosses that 37 or 38 analysts would toss five heads in a row. Does this mean they did a great job?

We might test this to see if the number of analysts who made correct predictions was

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larger than would be expected given a normal distribution of random variables. Still, this would not prove anything really. Because, fundamentally, we are concerned with whether anyone can predict the future—and that is not really an empirical question.

More on the Irish Famine

To the Editor:

Stephen Davies's article "The Great Irish Famine" (September 2001) was a balanced approach that punctured many of the myths surrounding this tragic event. But he could have gone further.

The traditional myth suggests, first, that the English somehow were responsible for the famine; and second, that they failed to respond. Both of these arguments are false.

The 1845 potato blight that led to the Irish famine also affected much of Europe in 1845. Clearly, the English were not responsible for *that*. But the blight had more dire consequences in Ireland than elsewhere.

There were many reasons why this was so, some of which were touched on by Mr. Davies. But there are other factors. The population of Ireland had nearly doubled in the years 1800-1840. During this period, Irish political leaders rejected emigration—which would have relieved some pressure. There was widespread emigration from the mainland of Britain, which relieved poverty in England and Scotland.

Moreover, Irish political leaders also encouraged the subdivision of holdings, leading to the steady reduction in the size of land holdings, and the dependence on a single (easy to grow) crop. As Davies discussed, the primary subsistence crop was the potato, and when the blight—which first appeared in North America in 1844—reached England and Ireland, its effect was devastating.

So the English were not responsible for the fact that the blight led, in Ireland, to famine. Nor, once the famine took hold, were the English responsible for the fact that its impact was so devastating. Remember, in 1845 there were no telephones or CNN. News of the scale of the famine reached London only gradually. The government of the day took the news very seriously: "I never witnessed such agony," said the Duke of Wellington, describing Prime Minister Sir Robert Peel's reaction to the news.

Peel promptly moved to repeal the protectionist Corn Laws. To understand the importance of the courageous move by Peel, one must appreciate that the Corn Laws were a cornerstone of British economic policy in the early part of the nineteenth century, supported by the landed gentry, who formed the wealthy class of the day, and by the newly urban working classes, who appreciated cheap corn and bread. Repeal allowed the export of corn to Ireland, but it also caused Peel's resignation as prime minister and destroyed the Tory Party, to be replaced by the modern Conservative Party.

In addition, England did attempt to alleviate the hunger. It sent large amounts of food relief to Ireland, amounts that were extraordinarily large in the context of the day, and in the context of relief provided for the hungry in England, Scotland, and Wales. Many, including for example the Church of Ireland's Archbishop Whatley "gave liberally from his personal wealth" to famine relief. That is charity. Much of the government aid was ultimately counterproductive, as one would expect from *any* government program to assist the poor or disaster victims, but it would be difficult to castigate England for sending food to the Irish.

The Irish complain that "Irish corn" was exported from Ireland during the famine. Well, shipping English corn to Ireland to help the Irish poor was seen as a betrayal by the British poor. The difference is that the English working class have forgotten this, while the Irish insist on harboring their historic hatred of Britain.

The Irish potato famine was tragic, but it was neither caused by nor exacerbated by nor ignored by England.

—Adrian Day
Annapolis, Md.

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IDEAS ON LIBERTY
JANUARY 2002

Some Questions

I'm writing these words in the early-morning serenity of my home, two weeks after the September 11 terrorist attacks. All appears peaceful, fine, and as it was before September 11. My son, Thomas, is upstairs sleeping the sweet sleep of a child too young to comprehend what is happening. The world that he understands is that of *Clifford the Big Red Dog* cartoons, toy trains, and laughing with his mommy and daddy.

His child's world was always destined to change into an adult's world, with more worries, more pressing expectations, greater responsibilities. But by historical standards, even an adult's world in modern America is wonderful.

The pressures ordinary American adults confront today are not those of most of our ancestors. We don't regularly watch, helpless, as many of our loved ones die of famine. When our incomes fall, we don't perish. And we've conquered legions of the diseases that killed our ancestors with brutal regularity. Most of what we today regard as hardships are trivial nothings compared to the cruel hardships of just a few generations past.

But will it continue to be so?

Until September 11, I was confident that Thomas would grow up in a world even better than the wonderful world his mother and I grew up in. I was confident that his future would offer him an array of choices richer even than the smorgasbord available to those of us born during the mid-twentieth century. And I was confident that the most precious possession he could have—liberty—would grow.

My confidence in this future has plummeted. Even the great and wise optimist Julian Simon warned that warfare—legitimate and illegitimate—spells trouble. Improvement in the quality of our lives depends on free minds and free markets. Indeed, civilization itself must be nourished by a never-ending stream of thoughts and plans and actions that are creative and diverse. Genuine diversity of thoughts, plans, and actions—genuine creativity—genuine experimentation—genuine freedom to challenge existing dogmas, deities, and demagogues—all these requirements for a free society are at the very least severely cramped during wartime.

I don't venture here any opinion on just what steps the U.S. government today should take to punish those responsible for the September 11 attacks. But I do offer some questions that I hope people ask and demand be answered reasonably.

Centralizing Airport Security

Does centralizing the security of airports really ensure greater safety? In the wake of the attacks, many pundits and politicians have assumed that a federal takeover of airport security would make us safer. But why? With centralization, experimentation with different security-enhancing measures

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declines. Any new idea must first be approved by a central authority. If the idea is good, its implementation will likely be delayed by a cumbersome bureaucracy. If the idea is bad, the entire country will suffer when it is implemented. No airport or airline whose management has a dissenting opinion about security procedures, perhaps based on special knowledge, can escape the centrally imposed, one-size-fits-all measures.

More important, with centralization, the means of distinguishing between good and bad ideas for improvement are weak. By allowing each airport and airline to devise its own creative ways of enhancing security, we can compare different approaches. Unlike centralized provision of security, this real-world experience with different approaches will provide far more reliable and nuanced information on how best to promote security.

It's a dangerous illusion to suppose that one central government authority in charge of airport and airline security will actually promote greater security. Privatization of airports is a far more promising step.

The Threat to Liberty

Will the vast new powers now being given to the federal government—powers that better enable it to spy on private people—really not threaten essential liberties? It's both foolish and un-American to suppose that such powers pose no significant threat to the liberties of the very people they ostensibly are designed to protect. Washington, Jefferson, Madison, and others of the founding generation understood well that government is a threat to liberty and, therefore, it must be forever held in check—not only by formal constitutional fetters but, more importantly, by an ethic of skepticism by citizens.

It's tempting, when attacked by foreigners, to cast this ethic of skepticism aside. It's tempting to tell our guys, "Do whatever you must to get those bad foreign guys." But what happens when the foreign guys are gotten? Does the state then automatically, of its own accord, shrink its power base? Many people imagine that it does, but Robert Higgs carefully documents in *Crisis and Leviathan* that when peace returns the state never relinquishes all the additional powers accumulated during war. Centralization of society ratchets upward. Freedom ratchets downward.

What About Foreign Policy?

Will President Bush, his advisers, and Congress give serious thought to ending the long-standing U.S. policy of using military might to engage in nation-building and nation-policing? The world is an immensely complicated place. Even the best and the brightest government advisers cannot begin to understand the nuances of foreign political, cultural, and military situations—situations, incidentally, that are forever in flux. Predicting the ramifications of U.S. government intervention into the politics of other nations is impossible.

What we do know is that such intervention causes many of those foreign peoples whose governments are out of political favor with Uncle Sam to hate Americans. Even if unwarranted, such hatred is a raw fact. And this fact puts millions of innocent Americans at risk of dying at the hands of terrorists. By adopting a policy of political neutrality—a policy endorsed by, among others, Washington and Jefferson—our government will remove a major source of inspiration for terrorism against Americans.

I confess that I'm not confident that enough people will ask such questions.

So, as my son sleeps upstairs, his future awaiting him, I despair for him and his generation. Government's power will expand at the expense of liberty. And adding insult to this awful injury, Americans likely will remain insufficiently secure from terrorist attacks. The notion that our diplomats and generals can both intervene as world policemen *and* effectively ensure the security of American civilians is a gargantuan conceit. Freeing ourselves from this conceit is necessary if we are to retain any hope of genuine security and liberty. □

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BOOKS

The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else

by Hernando de Soto

Basic Books • 2000 • 276 pages • $27.50

Reviewed by William B. Conerly

Taking things for granted isn't always a bad idea. Anyone who checks the morning paper to see if the sun will rise in the east is wasting his time. But the role of property has been taken for granted, with awful results. Economics textbooks may discuss incentives to invest, but they seldom, if ever, make clear the assumption that a person investing in property would have some confidence that he could continue to own the property. That assumption turns out to be pivotal to economic development.

Several recent books have raised our awareness of the dramatic role that property plays in economic development and in freedom. Tom Bethell wrote *The Noblest Triumph*, a readable, broad survey of the role of property in economic development. Then Harvard historian Richard Pipes wrote *Property and Freedom*, inspired by his study of Soviet Russia.

The latest of the property trilogy is Hernando de Soto's *The Mystery of Capital*. De Soto runs a free-market think tank in Peru and was widely hailed for *The Other Path*, which made the case for free markets in less-developed countries. His new book showcases a multi-country study of how difficult it is for poor people to get legal title to property in various Third World countries.

Where most of the land is government-owned, poor people become squatters. In America, we build a house and then add furniture. In the Third World, poor people reverse the process, putting simple belongings on a piece of unoccupied ground. If no one disputes their claim, a bit of a roof follows. As time goes by, and as the neighbors come to recognize the newcomer's property, a regular structure will be added. Over time, not only do the neighbors recognize the squatter's property, but also informal local organizations may "register" the ownership—unofficially, of course.

But what if the squatter wanted to acquire legal title to the property? In the Philippines, de Soto shows, it would take 168 steps, and 13 to 25 years. In Haiti, it's 111 steps over 11 years. Egypt looks like a hotbed of freedom with only 77 steps that could possibly be completed in six to ten years.

As a result of these difficulties, legal title is not sought, and this type of property is called "marginal." The research team that de Soto led estimated the size of the marginal sector and found that it's anything but: "In fact, it is legality that is marginal; extralegality has become the norm. The poor have already taken control of vast quantities of real estate and production." In fact, de Soto estimates that four of every five rural Peruvians live in untitled property, with similar figures for other countries. A shanty may only be worth $500 or so, but the shanties add up. In Haiti, the value of untitled property is estimated at $5 billion, four times the value of assets of all legal businesses in the country!

Again, the broad conclusions hold across all the countries studied. The lesson is that poor people can accumulate capital, but without legal title they cannot fully exploit their assets. De Soto shows that property has several uses. Not only can it provide a dwelling, but it can also provide collateral. Where legal title does not exist, however, its collateral value is limited.

Throughout the world, extralegal organizations have formed to register property. De Soto cites neighborhood business organizations, residents' committees, farming conventions, and so on. Those organizations recognize and document extralegal property claims. "We did not find a single extralegal plot of land, shack, or building whose owner did not have at least one document to defend his right—even his 'squatting rights.'" The limitation, though, is that there is no good source of information for outsiders who

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might lend money based on the extralegal collateral. The potential lender will also not know whether the local property-recognizing organization would recognize the lender's lien. The government typically does not want to surrender its own title to land, and the economic elite may also have claims to land occupied by squatters. The result of conflicting claims is that no one can realize the full value of the property.

Hernando de Soto has done a great service by demonstrating that the poor people do have property and can accumulate capital. But the poor cannot realize their potential because of the conflict between their real but extralegal claims and the unreal but legal property systems. Taken with the fine books by Bethell and Pipes, *The Mystery of Capital* demonstrates that property rights must never be taken for granted. □

William Conerly is an economic consultant in Portland Oregon, and chairman of the Cascade Policy Institute.

From Pathology to Politics: Public Health in America

by James T. Bennett and Thomas J. DiLorenzo

Transaction Publishers • 2000 • 160 pages • $29.95

Reviewed by Miguel A. Faria, Jr., M.D.

From Pathology to Politics, by economists James T. Bennett and Thomas J. DiLorenzo, is a serious, eye-opening indictment of America's public-health establishment. Bennett and DiLorenzo mark the release of the federal government's Kerner Report of 1968 as the point when the public-health establishment (PHE), incarnated in the American Public Health Association (APHA), crossed its Rubicon and left the realm of science for the realm of politics. That report, discussing the "root causes" of poverty, was embraced by the APHA, which then boldly announced that "social policy rather than public health, per se, would henceforth become its main focus."

By the 1970s and 1980s, with the growth of government, the PHE came to have tentacles extending into virtually every government agency, from the U.S. Department of Health and Human Services to the Department of Defense, not to mention the Centers for Disease Control, state and local agencies, and the various schools of public health. The PHE became (and remains) bloated and highly politicized, more concerned with increasing its power, promoting its radical, left-wing political agenda, and augmenting its own budgets than enhancing the public health.

The authors show that a large portion of the tax dollars that go into the PHE are used to fund biased, unnecessary projects and other boondoggles concocted by public-health experts who frequently use politicized, results-oriented research masquerading as science to promote increased government intervention and to further increase their funding. And of course, the PHE makes sure to allocate significant amounts of money to lobbying for itself. If called into question, it retreats behind the unchallengeable slogan that it must be done "for the children."

At one time, the PHE depended on campaigns of public education. No more. Now it depends on raw power and government coercion. If there is any education, you can be sure it will be followed by calls for the establishment of more agencies and bureaucracies, more regulation, more money extracted from the taxpayer, greater restrictions on individual liberties, and more government dependency.

Although the PHE proclaims that many of its reforms are "for the children," when it comes to politics and ideology, even the youngsters can be relegated to the back seat. In the name of protecting the earth's ozone layer, for example, the APHA joined the EPA and the FDA in proposing a ban on asthma inhalers because they contain chlorofluorocarbons (CFS), which purportedly deplete the ozone layer. The American Medical Association correctly countered that inhalers relieved the symptoms of asthma in children and in many cases can be lifesaving.

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The physicians' plea to prevent the call for a ban on the lifesaving inhalers was seconded even by the Congressional Black Caucus, which represents thousands of inner-city asthma sufferers. Nevertheless, the APHA and other public-health agencies (and joined by the American Lung Association, an organization notorious for endorsing questionable products in return for financial rewards from manufacturers, as the authors point out) continued to support the ban on the asthma inhalers. Obviously, the APHA, EPA, FDA, and ALA were more concerned with environmental ideology and dubious science rather than the health of the inner-city children they endlessly claim to protect in their lobbying efforts.

Another area where the APHA has been shown to be so far on the statist side of the political spectrum as to defy comprehension is welfare reform. Children on welfare have lower cognitive abilities, are more likely to drop out of or fail to graduate from school, have lower educational achievement, have high teenage crime rates, are more likely to be illegitimate, and so on. Never mind—calling welfare a "public health issue," APHA fought changes in the welfare system tooth and nail. Despite the success of the 1996 reforms, the APHA still is on record opposing them.

The authors give many more examples, describing the PHE's stands on tobacco, education, socialized medicine, the environment, (un)scientific research, gun control, social justice, and more. The public-health establishment puts our pocketbooks, our liberties, and our health at risk. You must get a copy of this book and read it! □

Miguel Faria, Jr., M.D., is editor-in-chief of the Medical Sentinel, *the journal of the Association of American Physicians and Surgeons (AAPS), and author of* Vandals at the Gates of Medicine: Historic Perspectives on the Battle Over Health Care Reform *and* Medical Warrior: Fighting Corporate Socialized Medicine.

It's Getting Better All the Time: 100 Greatest Trends in the Last 100 Years

by Stephen Moore and Julian L. Simon

Cato Institute • 2000 • 312 pages • $14.95 paperback

Reviewed by William H. Peterson

It's not for nothing that economics is tagged "the dismal science." Part of that reputation traces to its realistic no-pie-in-the-sky nature, but another part goes to the ongoing influence of thinkers like Thomas Malthus, who saw population outracing food output; Karl Marx, who saw evil capital crushing the rising working class; and John Maynard Keynes, who saw government demand-management as the only way to beat unemployment and the business cycle. (For the record, David Levy has shown that Thomas Carlyle coined the term "the dismal science" not for reasons such as those, but because the practitioners of economic science opposed racial slavery. See *Ideas on Liberty*, March 2000.)

More recently, noneconomists like biologist Paul Ehrlich of Stanford University, Lester Brown of the World Watch Institute, and presidential candidates Ralph Nader of the Green Party and Pat Buchanan of the Reform Party have jumped on the World-Is-Going-To-Hell bandwagon.

Here's how *Newsweek* reported on "Global 2000," a 1980 multimillion-dollar U.S. government study authorized by President Jimmy Carter: "The year: 2000. The place: Earth, a desolate planet slowly dying of its own accumulating follies. Half the forests are gone; sand dunes spread where fertile lands once lay. Nearly 2 million species of plants, birds, insects, and animals have vanished. Yet man is propagating so fast that. . . ." Well, you get the flavor of "Global 2000"; it was caught in a bumper sticker of that day: "Stop the Planet! I Want to Get Off!"

Pessimist Ehrlich has been especially wrongheaded. In 1969, on the very eve of the Green Revolution of zooming farm pro-

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ductivity, he foresaw that hundreds of millions of people "will starve to death," including tens of millions in the United States. Somehow he won a MacArthur Foundation "genius" award.

Enter optimist—and realist—Julian Simon (1932–1998). Economist Simon had the annoying habit of confronting the doomers and gloomers with hard facts. He concluded that population literature was wrong, that there is no "population bomb," that we are not running out of resources, that human beings are not only consumers but producers, and that they are indeed our "ultimate resource."

In 1980 Simon made a famous bet with Ehrlich that the prices of any five natural resources would fall ten years hence. Ehrlich leaped at the chance—and in 1990 had to pay up.

Enter too, Stephen Moore, long a research associate of Julian Simon, and today a brilliant young economist and thinker in his own right. He prevailed on the Cato Institute to complete and publish Simon's unfinished manuscript. The two authors set the central premise that there was likely more improvement in the human condition in the twentieth century than in all previous centuries combined.

Through more than 100 color data charts, each supported by about a page of text, they maintain that compared to previous generations, we Americans are in the great majority healthier; live longer; are richer; can afford to buy far more things; have better jobs; earn higher pay; have more time for recreation, travel, sports, and the arts; have bigger and better homes; are at much less risk from catastrophic accidents; and breathe cleaner air and drink safer water. They also show that black Americans have shared in the prosperity and that the income gap between blacks and whites is closing, as is the income gap between men and women. The authors note that at the start of the twentieth century almost no women went to college; today women are more likely to attend college than are men.

And so on and on go the upbeat trends, a welcome breath of fresh air in the dark ruminations on the dismal science. For opinion polls show that many Americans still fret about the human prospect. They regard technological change as a net negative development, worry that the income gap between the rich and the poor is wider than 100 years ago (not so), and fear that the environment is worse mainly because of the automobile (forgetting that the horse pulling a buggy or wagon was a far greater polluter than the auto). Ben Wattenberg titled his 1984 book *The Good News Is The Bad News Is Wrong,* and Moore and Simon succeed in proving that that really is the case.

Yes, there are also some unfavorable trends, found where government policy holds sway. Social indicators such as divorce and out-of-wedlock births are grim. Taxes are higher and government much bigger. Educational quantity is way up, but its quality is way down. Rita Simon, Julian's widow, a faculty member at American University and author of the foreword to the book, notes that the twentieth century saw the rise of Nazism, Stalinism, and Maoism but also their fall; that in side-by-side comparisons, South Korea has been far more prosperous than North Korea, West Germany than East Germany, and Taiwan than mainland China. Government control, so often prescribed by the gloom-and-doom set, has been a dismal failure.

Maybe market economics should be renamed "the enriching science." □

William Peterson (whpeterson@aol.com), an adjunct scholar at the Heritage Foundation, is a contributing editor to Ideas on Liberty.

The Constitution and the New Deal

by G. Edward White

Harvard University Press • 2000 • 385 pages • $47.50

Reviewed by George C. Leef

Myths about U.S. history abound, and perhaps no era of our history has spawned more than the New Deal. The economic myths are well known: That

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the economic collapse was due to an innate flaw in the free-market system; that the Hoover administration adopted an unyielding laissez-faire policy that allowed the crisis to deepen; that FDR's energetic, visionary programs "primed the pump" and rescued the economy, and so on. But there are also legal myths surrounding the New Deal, and in his elegant *The Constitution and the New Deal*, G. Edward White exposes them to exacting, scholarly scrutiny. The result is a book that serious students of the Constitution will want to read with care.

White, professor of law and history at the University of Virginia, writes in his introduction, "The conventional account of early twentieth-century constitutional history begins by identifying the New Deal as the source of a new era of constitutional law and constitutional interpretation, in which the Constitution was adapted to facilitate a new realm of American governance." The conventional account, moreover, has been crafted by writers who idolized FDR and big government so as to cast developments as the triumph of a "modern" approach to the Constitution. The antiquated view of the Supreme Court's role as a protector of liberty and property was rejected by enlightened justices who could see that the legislative and executive branches needed to be given virtually unfettered power to regulate economic behavior. The Court's role was to be limited to the defense of "fundamental" rights such as those in the First Amendment. Most students of constitutional law are treated to a virtual morality play as professors and textbooks present the cases as the clash between evil old property rights and good, modern state regulation.

White is not a partisan of the older approach to the Constitution, exemplified in such cases as *Lochner v. New York* and *Adkins v. Children's Hospital* (striking down maximum-hour and minimum-wage legislation respectively). Nor is he a partisan of the "modern" approach. He is simply reexamining history and finds much amiss in the "triumphalist narrative" that has become widely accepted.

Lochner is usually scoffed at these days, with professors pointing out Justice Holmes's dissenting line, "The Fourteenth Amendment does not enact Mr. Herbert Spencer's Social Statics," and leaving the impression that there was nothing to the majority opinion except an illegitimate exercise of judicial power, substituting the personal philosophy of the justices for the wisdom and compassion of the legislature. White cautions that the "guardian" view was not illegitimate or absurd:

> When courts used the Due Process Clauses to strike down redistributive legislation . . . they were thought of as doing so to prevent legislative tyranny or corruption. One example of such tyranny or corruption was legislation that violated the "anti-class" principle by failing to demonstrate that it was an appropriately "general" use of the police powers, as distinguished from an inappropriately "partial" one. That type of legislation amounted to the favoring of one class or interest above another or, more baldly, the taking of property from one class of citizens and giving it to another.

The old school of constitutional interpretation regarded it as important to guard against legislation that took liberty or property from A and gave it to B. It isn't White's aim to argue the merits of that view—which squares very well with everything we know about the intentions of those who wrote the Constitution—but he does show that the guardian view was neither illegitimate nor risible.

Another crucial case White examines to show the change in attitude toward the Constitution is *Home Building and Loan v. Blaisdell.* The Minnesota legislature had enacted a statute to prevent mortgage foreclosures. The trouble with that bit of vicarious generosity was that there is a constitutional provision reading, "No state shall impair the obligation of contracts." That is not ambiguous language, and White points out that among the framers, "There was widespread agreement that the Constitution

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should curb the opportunities of state legislatures to interfere with private contractual arrangements."

In his majority opinion, Chief Justice Hughes blathered away about the "growing appreciation of public needs" to talk his way around the clear meaning of the Contracts Clause. White observes that the case is important because it was a victory for the "living Constitution" theory: "Upholding the Minnesota statute challenged in Blaisdell could only mean that the Contracts Clause . . . did not mean in 1934 what it had meant for the past 150 years." The "living Constitution" approach, of course, is the intellectual cover for instances where the justices want to ignore things that are in the Constitution or to smuggle in things that are not.

This lovely volume is worth reading if you are among those who can't abide the sanctification of the New Deal. □

George Leef is the book review editor of Ideas on Liberty.

The Fourth Great Awakening and the Future of Egalitarianism

by Robert William Fogel

University of Chicago Press • 2000 • 383 pages • $25.00

Reviewed by Sam Bostaph

Robert Fogel argues that "egalitarianism" is a national ethic that has manifested itself in American history in three successive forms. During the eighteenth, and most of the nineteenth, century it took the form of desiring for everyone an "equality of opportunity" for material success. Toward the end of the nineteenth, and throughout most of the twentieth, century it was the "equality of condition" with respect to income and wealth that was the goal of the egalitarian ethic. At the turn of the present century there has been a return to the ethic of "equality of opportunity," but with a new twist. Now the term means to provide an equal opportunity for "spiritual" growth, for developing one's "spiritual assets," for achieving one's individual "potential," rather than a focus on providing mere access to the material means for self-improvement.

Fogel, winner of the 1993 Nobel Prize in economics, identifies American evangelical churches as the leading religious force in achieving political reforms in response to the perceived social inequities of each age. The crucial period of transformation in theological beliefs, and their expression in action, are the four "Great Awakenings" of his book's title. The inequities that produced each of the "awakenings" were themselves the result of the impact of technological change, manifested in economic institutions, on human cultural and physiological evolution. The guiding principle of social change is the way in which the ethic of "egalitarianism" is implemented in response to each "Great Awakening."

The first "awakening" was a response to the perception that the moral and political corruption of Britain was infecting the American colonies. It produced the American Revolution and paved the way for the second "awakening," which focused on individuals achieving a "state of grace." This led to the abolition of slavery and the attempt to create equality of opportunity for material advancement. It was the eventual frustration of achieving that latter goal, given the modern structure of industry, and the associated belief that poverty was a social, rather than an individual failure, which led to the third "Great Awakening." The latter belief eventually produced the welfare state as part of an attempt to achieve equality of condition, given the absence of equality of opportunity. The "Fourth Great Awakening" is Fogel's speculative title for the recent focus of evangelicals on the spiritual development of the individual in the face of certain perceived "inequities" in the possession of "spiritual assets," such as purposefulness, self-esteem, discipline, motivation, dedication to family and community, and intellectual curiosity.

Fogel ends with an outline of a reform agenda and a catalog of proposed measures for its implementation. He also characterizes his descriptive "cycle" model as one that reveals the continuity in 300 years of an

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American struggle to win over the world "to the egalitarian creed that is at the core of American political culture."

There is much about specific technological, political, theological, religious, and economic history that can be learned from this book. However, and putting aside my fundamental disagreement with the notion that an "egalitarian creed . . . is at the core of American political culture," Fogel's general argument fails in two respects. The first is his failure to present a convincing causal tie between technological advancement and each of the "Great Awakenings." Instead, what is presented is an anecdotally constructed conjectural history. Fogel accepts rapid technological change, and its consequences, as characteristic of the modern era. Why? It is obviously not some sort of primal force, or it would not be so new to human history.

It also must be mentioned that his "cycle" argument fails at the outset in that the American Revolution is identified as the religiously nurtured fruit of the "First Great Awakening." Almost as an afterthought, Fogel points out an irony in the fact that most of the Founding Fathers and members of the Continental Congress were a-religious deists. Are we to take them as mere opportunists happening on a fertile field, rather than leading elements of a more general ideological struggle?

Those who believe that technological and social change are made possible and driven by ideas derived from fundamental philosophical beliefs—which are themselves independent of technological or economic change—will find little in Fogel's argument to change their minds.

The second failure of the book lies at the end. Fogel's "Postmodern Egalitarian Agenda" to redistribute "spiritual assets" reads like a social-engineering satire. His foundational beliefs are that "self-realization requires good health and leisure" and that, given the requisite governmental redistribution of our present material abundance, there is a necessity for the spiritually rich elite to educate the spiritually deprived masses so that they may also achieve self-realization. Thus will "spiritual redistribution" follow material redistribution and complete the realization of the egalitarian ethic. Both parts of this agenda are only superficially supported: the first by an offhand reference to John Dewey; the second by the usual reflection that education is the balm of the malformed soul. As Leon Botstein pointed out in his commencement address on May 20, 2001, at my university, the bloodbaths of the twentieth century were all led by educated men. And as Fogel himself recognizes, moral values inculcated through family and church are what tend to produce moral human beings. The problem is not one of education per se; it is that of the formation of character, and that is much more complicated in solution. □

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A History of Economic Thought: The LSE Lectures

by Lionel Robbins

edited by Steven G. Medema and Warren J. Samuels

Princeton University Press • 2000 • 375 pages • $18.95 paperback

Reviewed by Israel M. Kirzner

In at least one respect, this is a remarkable book. It consists of the edited transcripts of a course of 33 lectures in the history of economic thought that Lionel Robbins delivered at the London School of Economics during the 81st and 82nd years of his life. A foreword by Professor William Baumol (a student of Robbins who later became his close friend) refers to the "dazzling intellectual brilliance" of these lectures, and to Robbins's "command of language, his clarity of mind, and his incredible erudition assisted by an incredible memory."

Given the age of the lecturer, these lectures are noteworthy indeed. This reviewer does not in any way quarrel with Baumol's observations. And he is fully appreciative of the stroke of editorial genius that inspired the editors to undertake the publication of

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these lectures and to contribute valuable introductory and concluding essays to the volume. At the same time, he must record certain reservations.

There can be no question that these lectures contain a wealth of information and reflect an extraordinary familiarity with an enormous literature. The lectures must have been fascinating for the LSE students who heard them. After all, Robbins was one of the most famous British intellectuals and public figures of his time. This writer had the privilege of meeting Lord Robbins on one occasion and can attest to the kindness, open-mindedness, and generosity of spirit he displayed. The lectures in this volume reflect the sparkling humor and the "virtues of civilized behavior and scholarship" with which they were delivered.

Yet as a contribution to the history of economic thought, this volume is something of a disappointment in two respects.

First, despite the title of the volume, the lectures were never intended to constitute a treatise or textbook on the history of economic thought. The treatment of the many economists and other thinkers (starting with Plato and concluding well into the twentieth century) is often superficial and incomplete. Many of the expositions that Robbins provides of the ideas of the great economists seem far too sketchy to have been intelligible to his listeners (unless they had independently studied those writers). The lectures, despite some references to later writers, do not cover twentieth-century economics beyond the work of Alfred Marshall, Irving Fisher, and their generation. Except for a few lectures, they concentrate on specific economists or doctrines, with little attempt to trace broad developments in economic thinking or the growth and decline of major schools of thought.

These negative observations do not, of course, represent criticisms of the lectures themselves, which, as mentioned, never set out to offer an oral treatise on the history of economic thought. But they do represent a certain disappointment regarding the expectations generated by the book's title.

The second sense in which the volume comes as something of a disappointment has to do with a question of substantive doctrinal import that is likely to be of interest to readers of *Ideas on Liberty*. I am referring to the pivotal role Robbins played in the twentieth-century history of Austrian economics. Almost a half-century before the delivery of these lectures, Robbins was one of the most influential British economists of his time. Much of his influence was exercised in a manner of great significance for the development of the Austrian tradition, under the spell of which Robbins seems, at least at that time, to have fallen. It was Robbins who invited Hayek to London for his famous 1931 series of lectures (and had him appointed soon afterwards to his professorship); it was Robbins who inspired the publication during the early '30s of English-language versions of two important books by Ludwig von Mises, his 1912 work on monetary theory and his devastating 1922 critique of socialist planning. And it was Robbins who published his own extremely important 1932 *The Nature and Significance of Economic Science*, replete with Austrian insights and citations from Austrian writers. In other words, the Robbins of the early '30s was a British follower of the Austrian tradition who introduced it into the mainstream of economic thought of his time. Alas, one searches in vain, in these lectures, for any trace of *that* Lionel Robbins.

To describe this as a disappointment is not entirely accurate. It is well known that Robbins distanced himself from the Mises-Hayek position decades ago—partly under the influence of Keynesian economics, partly as a result of other influences. Yet, as one opens these pages, one might have perhaps expected, in Robbins's treatment of the Austrian School, that he might reveal some flicker of that excitement with which he had absorbed the ideas he learned in Vienna a half-century earlier. This reviewer could hardly detect any such flicker of excitement. It is true that Robbins refers with obvious respect to Ludwig von Mises, but he is careful and quick to note that "Mises is a very controversial figure in regard, let us say, to his views on methodology and in regard to his views on the possi-

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bility of calculation in a pure collectivist state"—thus indicating that he, Robbins, no longer stood for the Austrian positions on these very two subjects that he had staunchly defended during the '30s.

Despite Robbins's own abandonment of the central ideas that suffused his work in the early '30s, the intellectual historian of the Austrian tradition must nonetheless record the timeless significance of that work for the subsequent development of that tradition. The slow but powerful influence that Mises and Hayek came to exercise on late twentieth-century Austrian economics, and the current significant revival of the Austrian tradition, could not have happened the way it did without Robbins's contributions. In celebrating the brilliance of these lectures, therefore—and in spite of the volume's disappointments—we pay homage, as well, to an open-minded thinker who, as a young man, possessed the intellectual acumen that enabled him to introduce the Austrian tradition onto the world stage of economics. □

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IDEAS ON LIBERTY
JANUARY 2002

Who Should Vote?

Status as an adult citizen in a political jurisdiction is seen as a sufficient condition to entitle one to a vote for a representative or participate in collective decision-making. Why not apply that same criterion and entitle adult citizens to voting rights to decide the composition of corporate boards of directors and other corporate matters? If mere adult status and citizenship is sufficient for decision-making in the political arena, why not in the economic arena as well?

The easy answer/question is: why should anyone who has no stake or interest in a corporation have a say in its decision-making? The only people who should have voting rights are stockholders, who have ownership rights in the corporation. We generally agree that voting power should be proportional to their stake in the corporation, namely, how many shares they own.

If votes were not proportional to one's stake (stock) in the corporation, including none at all, people might easily vote in ways that personally benefit them but harm the best interests of the corporation and other stockholders. For example, imagine if all Detroit citizens were entitled to vote on decisions made by General Motors. Suppose these voters managed to get on the ballot the question whether the corporation should give all its profits to local charitable organizations or be plowed back into the corporation as retained earnings. It is not at all inconceivable that donating General Motors' profits to local charities might win by a landslide. People who have little or no stake in General Motors can be expected to behave differently from those who do, simply because their decisions are less costly to them—others bear the cost of their decisions.

The identical cost/benefit assessment applies to decision-making in the political arena. Suppose a politician campaigned on the promise to increase spending on various social programs that would be funded with higher taxes. People who pay little or no taxes would see themselves as coming out ahead by voting for that politician. They would bear little or none of the costs, at least directly in the form of taxes, and they would benefit from the promised social spending increase. As such they could be counted on to support such a politician. Survey polls showed a less-than-enthusiastic response to President George W. Bush's calls for tax cuts. Maybe a good part of the reason is the fact that so many Americans pay little or no income taxes.

According to the most recent U.S. Treasury Department figures: in 1997, the top 1 percent of income earners (those with incomes of $250,000 and higher) paid 33 percent of all federal income taxes. The top 5 percent of income-earners ($108,000 and over) paid 52 percent, and the top 50 percent ($36,000 and over) paid 96 percent of income taxes. That means the bottom 50 percent of income-earners paid only 4 percent of all federal income taxes. Therefore, if

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someone is among the bottom 50 percent of income earners, what does he care about cuts in—or for that matter, increases—in income taxes? But if calls for tax cuts imply that they might be offset by spending cuts in social programs, he is apt to see his interests threatened and register disagreement with tax cuts.

From a moral point of view, we might ask just how fair is it to allow those who pay little or no taxes to use the political process to decide how much taxes others should pay? There should be a connection between one's stake in the financial wherewithal of our nation and one's right to participate in the decision-making process, at least in financial matters. We should consider adoption of a procedure similar to decision-making in the corporate arena: you get to vote if you have financial stake in the country. The size of your vote depends on how much of a stake you have. Therefore, at least in federal elections, we might have a provision whereby a person would have one vote per each one thousand dollars (or fraction thereof) that he paid in income taxes.

Such a voter qualification is not that farfetched. Colonial and revolutionary Americans believed that a man's independence, manifested by land ownership or having paid taxes, earned him membership in the political community and hence the right to vote. His economic stake in the society, it was thought, would encourage him to act in the public interest.

Some might find rejection of universal suffrage offensive. An alternative to majoritarian tyranny, where people vote themselves the money and resources of others, is to change the rule for increasing taxes and spending from a simple-majority to a super-majority requirement. An extreme version of a super-majority rule is the unanimity rule. That rule gives a person maximum protection against being harmed by a collective decision. If the person perceives himself as being harmed, he just doesn't vote for the measure and it does not pass. Some variant of unanimity, a super-majority of say two-thirds or three-quarters vote, should be required for taxing and spending increases.

My entire discussion and concerns would be irrelevant were Congress to heed its constitutional authority—the authority enumerated in Article I, Section 8 of the United States Constitution. □

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WILLIAM ROPER: *So now you'd give the Devil benefit of law!*

THOMAS MORE: *Yes. What would you do: Cut a great road through the law to get after the Devil?*

ROPER: *I'd cut down every law in England to do that!*

MORE: *Oh? And when the last law was down, and the Devil turned round on you—where would you hide, Roper, the laws all being flat? This country's planted thick with laws from coast to coast—man's laws, not God's—and if you cut them all down—and you're just the man to do it—d'you really think you could stand upright in the winds that would blow then? Yes, I'd give the Devil benefit of law, for my own safety's sake.*

—ROBERT BOLT, *A Man For All Seasons*

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